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Tough lesson for world shipping, Page 12

World news

Sakharov 'to resume political activism'

Andrei Sakharov, the Soviet dissident released from internal exile last week, has said he would resume his advocacy of human rights in the Soviet Union when he returns to Moscow next week.

He said that in a conversation with Soviet leader Mikhail Gorbachev last Tuesday no demands had been made that he curtail his political activities. Page 2

Shultz to meet ANC

US Secretary of State George Shultz will meet the president of the African National Congress, the anti-apartheid guerrilla group, in Washington next month. Page 2

Bombs hit Lima

Eight bombs exploded in Lima, capital of Peru, hours after President Alan Garcia called on national television for a "great national effort" towards economic growth. The name of the leftist Tupac Amaru Revolutionary Movement was found daubed on walls at four targets. No one was injured in the attacks.

French rail strikes

A third day of strikes by French railwaymen unhappy with working conditions and a new salary scale disrupted train services across the country. Drivers on the Paris Metro said they will go on strike today following a breakdown in talks with management.

Fighting in Chad

Chad said troops loyal to former Chadian rebel leader Goukouni Oueddei killed 400 Libyan soldiers and imprisoned four tank crews in fierce fighting in the country's north west. Libya denied it was fighting in Chad. Page 3

Iran to retaliate

Iran said it will shell Iraqi military and industrial areas for 24 hours in retaliation for an Iraqi air raid on its western city of Bakhtaran during which Tehran says more than 80 people were killed.

Kaunda's son dies

A summit of southern Africa's six frontline states ended abruptly without a communique after the death of a son of Zambian President Kenneth Kaunda, the summit's host.

Rome budget passed

The Italian Senate approved the Government's 1987 budget which aims to limit the state sector borrowing requirement to about L109,000bn ($71bn). The Finance Bill was passed by the Chamber of Deputies last month. Page 2

India border accord

India and Pakistan pledged not to support terrorists and agreed to step up military co-operation along their common border after two days of talks in Lahore, Pakistan. The talks addressed principally the alleged Pakistani encouragement for Sikh extremists in India's Punjab state. Page 3

Lull in Tripoli

The north Lebanon port of Tripoli was said to be quiet but tense after a 36-hour gun-battle between Syrian troops and the pro-Iranian Sunni Moslem Tawheed militia left 30 people dead.

Dutch protest

About 30 Dutch protesters chained themselves to the perimeter fence of the Borssele nuclear power plant in southern Holland in a demonstration calling for an end to nuclear power in the country.

Forgetful forgers

Bank tellers in the Belgian town of Termonde alerted police after discovering fake BFr 500 ($12) notes. The forgers had omitted to include the signature of the national bank's treasurer and governor.

Business summary

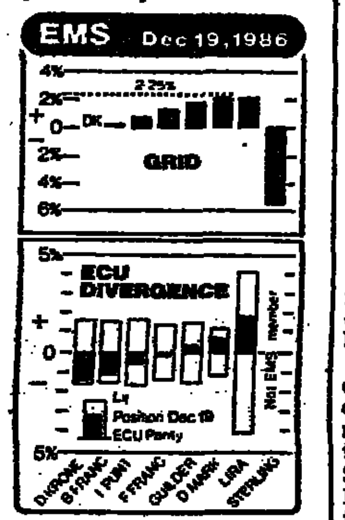
Gatt fails to agree plan for talks

GATT has failed to agree on a programme for the global trade-liberalising talks agreed at last September's meeting in Uruguay. It will try again in the second half of January to prepare a schedule for negotiations to start at the beginning of February. Page 14

AUTOPHON and Hasler, Switzerland's two biggest telecommunications companies, will merge in June. The new enterprise will have annual sales of close to SFr 2bn ($1.17bn). Page 17

MAGNETI MARELLI, Fiat car components subsidiary, is to raise L321.2bn ($230.7m) by means of an issue of equity and bonds on the Milan bourse. Page 17

EUROPEAN Monetary System: Trading was rather quiet compared with the sharp fluctuations seen in the previous week. The French franc stabilised as confidence returned with the passing of student riots. The D-Mark was a little firmer against the US dollar but this failed to produce any renewed strain on the weaker members of the system such as the Danish krone and the Belgian franc. The krone remained the weakest currency at 60 per cent of its maximum divergence spread compared with 57 per cent the previous week.



The chart shows the two constraints on European Monetary System exchange rates. The upper grid, based on the weakest currency in the system, defines the cross rates from which no currency (except the lira) may move more than 2¼ per cent. The lower chart gives each currency's divergence from its "central rate" against the European Currency Unit (ECU), itself a basket of European currencies.

RENAULT, French state-owned vehicles group, is considering a move into Brazil in the wake of the recently announced merger of the Brazilian and Argentinian operations of Volkswagen of West Germany and Ford of the US. Page 16

SPEICHIM, French chemical plant builder controlled by Spie Batignolles, faces heavy losses this year that will entirely wipe out its capital base. Page 17

EGYPT has set safety rules, including a $10m insurance requirement, for nuclear-powered vessels using the Suez Canal.

ISRAEL'S four major banks are to write off $20m of the $65m owed to them by the virually bankrupt Bet Shemes Engines aero-engine maker.

ASEA of Sweden has won an order worth $350m for equipment to transmit power from Quebec to north-east US. Page 3

UNLISTED Securities Market share turnover in London has unexpectedly risen since the Big Bang deregulation in October. It had been thought that post-deregulation competitiveness would lead to greater concentration on the shares of bigger companies. Page 7

EEC industry ministers are likely to agree today on freer competition in public supply purchasing. Page 2

INDIA is planning to increase its output of pharmaceuticals. Page 3

UK TAXATION rules are biased against exporters and a disincentive to overseas investment and trade, says the British Invisible Exports Council. Page 16

Students attempt to kindle flame of Chinese protest

BY ROBERT THOMSON IN SHANGHAI

THOUSANDS of students, huddled together against the cold of a Shanghai winter's night yesterday continued their unprecedented demonstrations for freedom and democracy, ignoring police attempts to move them on and proclaiming "the Chinese people will not be slaves."

As the protests moved into their third night there were signs of fraying tempers on both sides. Police arrested at least seven students outside City Hall, and students beat up 31 policemen and broke into municipal government offices, according to a Chinese news agency report.

This latest turn of events in the succession of student protests poses serious problems for the central leadership under Deng Xiaoping which has so far taken a tolerant view of the biggest public demonstrations since the Cultural Revolution of the late 1960s and early 1970s.

Diplomats in both Shanghai and Peking suspect the protests could lead to increased tension within the leadership. Deng has argued that political reform is crucial to the success of his economic reforms although it is far from clear whether his idea of political change coincides with the students' ideas.

More conservative ideologues within the party, on the other hand, are certain to call for more emphasis on ideological education and could cite the student demonstrations as evidence that Deng's reforms have gone too far too soon.

The protesters filling the vast People's Square in the city centre and jammed around City Hall on the waterfront last night were excitedly defining and redefining what they mean by "democracy" and "freedom" and looking for a focus for their collective energy.

For about 70 of those gathered the focus became a carload of foreigners, including myself. The vehicle was surrounded in an aggressive but good-humoured way, then rocked and bumped as it pulled away.

Up to 5,000 people have been on the streets in each of at least six university cities in recent weeks – Hefei and Shenzhen in the east, Xi-an in the north, Wuhan in the central province of Hubei, Kunming in the south west, and in Peking. In the capital, a poster proclaimed that China was a pile of tinder needing only a flame to ignite it and the students should be the flame.

But in Shanghai, up to 30,000 students have swarmed around the square and the majestic City Hall, formerly the grandiose headquarters of the Hongkong and Shanghai Banking Corporation.

Tension had been building up among the young people of Shanghai since public security officials reacted violently against two over-enthusiastic students at a concert by the US pop singers Jan and Dean two weeks ago. In the ensuing melee, a student from the Communications University was beaten by police. Students from this university have been leading the protest marches.

Last night, police, who have generally been tolerant, broke up one crowd and arrested at least seven youths, applying armlocks and dragging them off. Reports suggested up to 200 had been arrested and 40 beaten by police, giving the protesters the focus many have been lacking. However, shortly after last night's arrests the crowds and banners were back.

They were wrapped in bulky cotton-padded coats in the sub-zero temperatures and were clearly planning to stay all night. One of their leaders, Dai Junyi, a medical student, was passed cigarettes and cough drops by supporters as he shouted: "All of you should open

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Opec pact expected to trigger sharp rise in world oil prices

BY RICHARD JOHNS IN GENEVA

WORLD OIL prices are expected to rise sharply following the weekend agreement by the Organisation of Petroleum Exporting Countries (Opec) to limit collective output and fix selling rates.

Twelve of the organisation's 13 members – Iraq dissenting – agreed on Saturday to limit output to 15.8m barrels a day for the first half of 1987, against the recent level of about 17.3m b/d, and to fix selling rates around a central reference of $18 a barrel.

Analysts said that the pact was likely to push the price for Brent Blend, the key North Sea crude, for February delivery to $18 in the next day or so. Last week the buyer-seller rate fluctuated widely, but on Friday, with a reasonably successful outcome to the meeting in sight, one cargo was reported to have been sold for $16.90 a barrel.

In the longer-term, however, the effectiveness of the agreement will depend on how scrupulously the 12 members observe their quotas and the fixed prices set within a band of $2.65, giving a top rate of $18.92 for Nigeria's Bonny Light and $16.27 for Arab Heavy in the Gulf.

The pact could prove to be fragile despite the political will – evident among the signatories to make it succeed. The unpublished resolution says that they will be freed from their obligations under it "in case any member country violates unilaterally this agreement and exceeds its temporary allocated production level, in whole or in part, and such violation is confirmed."

The oil industry is sceptical about Opec's attempts to set a system of fixed-price differentials. For their part, Opec ministers are well aware that it will have to be constantly reviewed if distortions are not to prevent members fulfilling their quotas and induce them to offer discounts.

OPEC PRODUCTION QUOTAS ('000 b/d)

COUNTRY	Dec 1986	Jan-June 1987
Algeria	669	635
Ecuador	221	210
Gabon	160	152
Indonesia	1,193	1,133
Iran	2,317	2,255
Iraq	1,200	1,466
Kuwait	999	948
Libya	999	948
Nigeria	1,304	1,238
Qatar	300	285
Saudi Arabia	4,353	4,133
U.A.E.	950	902
Venezuela	1,574	1,495
TOTAL	16,239	15,800

Examples of price differentials: Saharan Blend (Algeria) $18.87; Murban (Abu Dhabi) $17.92; Minas (Indonesia) $17.56; Tijuana Light (Venezuela) $17.62; Arab Light (Saudi Arabia) $17.52; Arab Medium (Saudi Arabia) $16.92; Iranian Heavy $16.39.

The agreement comes into force from February 1, allowing a month to phase out various contractual arrangements, not least the "netback" deals whereby crude sales were based on actual market realisations for petroleum products.

A ministerial committee of no less than seven ministers under Dr Mana Said al Otaiba of the United Arab Emirates was appointed to review differentials "periodically."

The 12 Opec members, in particular Saudi Arabia, finally had to abandon efforts to persuade Iraq to agree to a quota, and agreement by the 12 only became possible when Iran dropped its insistance that the communique contain a strong condemnation of Iraq, its enemy in the Gulf war.

After the meeting Mr Gholamreza Aghazadeh, Iran's Minister of Oil, said that Iran would consider seeking the suspension of Iraq's membership if Baghdad does not accept the pact.

Iraq is expected to pump the maximum of the export capacity available to it, meaning that Opec's collective output could average as much as 16.5m b/d during the first half of 1987 even if all other members abide by their quotas.

The calculation takes into account the 310,000 to 320,000 b/d of "war relief crude" produced and marketed by Saudi Arabia and Kuwait for Iraq as a form of financial aid.

After the 10-day meeting, Sheikh Ali Khalifa al Sabah, Kuwait's Minister of Oil, made it clear that both suppliers regarded this output as part of Iraq's quota.

At the same time he stressed that Opec had been conservative in projecting the increase in demand for oil in 1987 at only 500,000 b/d or 400,000 b/d less than the latest estimate of the International Energy Agency. Sheik Ali also suggested that the effect on non-Opec output, especially in the US, from the "price war" this year might be greater than generally expected.

Iraq's exports have been constrained since November, though, by a limit imposed by Saudi Arabia in the volume passing through Petroline, the trans-peninsula pipeline system to Yanbu on the Red Sea for "technical" reasons involved in increasing its capacity. The flow was

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Tanker market anxious, Page 3

Bush presidential hopes dented by arms scandal

BY LIONEL BARBER IN WASHINGTON

MR GEORGE BUSH, US Vice President, has suffered a damaging setback to his hopes of securing the Republican presidential nomination in 1988 in the wake of the Iran arms scandal.

According to an opinion poll published in Iowa, the state which will pose the first test of presidential candidates, strength in 1988, Mr Bush's previously healthy lead over his Republican challengers has all but vanished.

The poll is the first concrete evidence that Mr Bush's popularity – like President Reagan's – plummetted in the past month.

In an effort to distance himself from the President Mr Bush, until now seen as the front-runner for the Republican nomination, has made two speeches in the past two weeks acknowledging that the Administration made mistakes in selling arms secretly to Iran. He said last Friday that he no longer regards himself as the front-runner.

The poll – published in the Des Moines Register in Iowa – is a clear indication that Mr Bush's close ties to the White House may prove to be a disadvantage in the forthcoming campaign, despite his overwhelming superiority in money and organisation.

According to the poll, Mr Bush now holds a mere 3 per cent lead over Senator Robert Dole, the outgoing Senate Republican majority leader. In a similar poll six months ago, Mr Bush led Mr Dole by 34 per cent to 16 per cent.

Mr Dole, who has scored in popularity through his tempered criticism of the President, has succeeded in turning the affair to his own advantage – at least at present. In a telling remark, Mr Dole spoke of a recent meeting with Mr Reagan where the President had said: "People like me, but they don't believe me."

Mr Dole said this summed up the way the arms scandal had damaged the President's credibility before the American people.

Senator Daniel Inouye, the chairman of the Senate Special Panel and a member of the 1973 Watergate committee, said on US television yesterday that he was prepared to approach foreign countries such as Israel, Switzerland and even Iran to obtain the facts about the secret arms sales. "We will do whatever necessary to find the truth," he said.

However, Mr Inouye, echoing warnings by Republicans and some fellow Democrats, said that there was a danger of damaging the presidency and the functioning of government if the investigations were not carefully conducted.

Senator Warren Rudman, the Republican vice chairman of the Senate Special Panel, said he was alarmed at the way the "collective kinetic energy," in Washington was focused on the scandal to the exclusion of important business

One of the main controversies that has emerged this week is whether the two key former White House aides in the affair – Lt Col Oliver North and Vice Admiral John Poindexter should be given limited immunity so they can testify before Congress.

The White House and Republicans are desperate for immunity to be offered so President Reagan can put the affair behind him.

Democrats treading softly in search of victory, Page 13

SGS and Thomson explore microchip merger

By Alan Friedman in Milan

SGS, the Italian state-owned semiconductor manufacturer, is in talks with Thomson, the nationalised French defence and electronics group, which could lead to further technological co-operation and even a merger of their semiconductor businesses.

The negotiations, which follow an agreement earlier this month on a joint project to develop an advanced super-memory chip, are still at an exploratory stage. Meetings have been held between top executives of both companies, but no deal is expected before the middle of next year. The discussions are especially delicate as both SGS and Thomson are state-owned companies.

The goal for both companies is to achieve an alliance which will enable them to compete more effectively in the competitive world of semiconductors, which is currently in the throes of a crisis. Any large-scale joint venture could represent an important rationalisation in the European market.

Under discussion between Thomson and SGS are a range of options which start at mere technological collaboration, include prospects for limited joint manufacturing and marketing and, could go as far as the setting up of a joint production company or a full merger of semiconductor activities. Other options include the possibility of a symbolic share swap between the companies.

Thomson has around 1.8 per cent and SGS around 1.4 per cent of the world semiconductor market. SGS, a high-volume, low-cost producer of integrated circuits, has begun a $100m investment in a US plant in Arizona. Thomson last year paid $71m to acquire from United Technologies the main assets of its Mostek semiconductor subsidiary, a leading company in the field.

SGS has also invested heavily in a Singapore production plant to service the Far East. The Italian company has also cut costs by transferring much of its assembly activity outside Italy to places such as Malta.

Although Mr Pasquale Pistorio, the SGS managing director, succeeded in turning round the company's fortunes in the early 1980s, the world market slump resulted last year in a $18m loss on sales of $306m. This year, SGS is expected to make a significantly higher loss on sale which are likely to be 20 per cent up in dollar terms but static in the Italian currency.

Thomson's electronic components, which includes the manufacture of semiconductors, is expected to lose about FFr 200m ($30.5m) this year.

Bonn economic advisers press for curb on banks in industry

BY PETER BRUCE IN BONN

AN INFLUENTIAL group of advisers to the West German Economics Ministry in Bonn has come out strongly in support of curbing the influence of West German banks in industry. This brings to a head a series of attacks on the banks this year which may result in legislation limiting their powers after next month's general election.

The Academic Advisory Council, a permanent body appointed by the Economics Ministry says the country's universal banking system – which allows banks to be both commercial and merchant banks, and stockbrokers and to vote the shares of absent shareholders at annual company meetings – "establishes conflicts of interest."

Because of the relatively underdeveloped state of West Germany's stock exchanges, says the council, most companies are financed through short and long-term bank credit. The banks in many cases become shareholders and it was difficult to measure their influence.

But, says the council in a report which is thought to reflect thinking in the ministry itself, "to allow the banks long-term share ownership in companies is disturbing mainly because their (other) role as creditor enables them to enjoy a clear information advantage in the (equity) market.

"As creditors they have access to company asset/yield relationships and are in the position to use this information for their own acquisition of equity or of companies," says the report.

The council supported a plea, made last summer by the Monopolies Commission, that the equity stake of any bank (or other credit institution) in a non-bank undertaking be limited to 5 per cent.

The big banks, including the Deutsche Bank, Dresdner Bank and Commerzbank, which together have in industry worth an estimated DM20bn ($10bn) have already tried this year to fend off attacks by arguing that the number of companies in which their stakes are greater than 25 per cent has been cut sharply.

Any stake over 25 per cent has to be reported and approved by the cartel authorities but critics argue that the grey area below 25 per cent is growing in importance and that bank influence need not be any less forceful at a 15 per cent holding.

The council also argued that West German credit institutions should no longer be allowed to remain legal exceptions to the country's normally strict cartel rules. Neither should the state-owned telecommunications monopoly, the Bundespost, and the power generation industry.

Under recent tradition, the Economics Ministry has been the preserve of the liberal Free Democrats (FDP), free marketeers and junior partners in Chancellor Helmut Kohl's coalition. Should the FDP win enough votes in next months election to remain the party that gives Mr Kohl's an overall parliamentary majority then it will probably retain the ministry.

It would be likely then that an attempt would be made to introduce legislation against the banks.

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OVERSEAS NEWS

US silence adds to EEC fears of grain trade war

BY QUENTIN PEEL IN BRUSSELS

THE US Government is keeping EEC trade negotiators on tenterhooks over whether they will face a new trade war on January 1 because of lost US grain sales to Spain.

Washington has yet to give any official response to the EEC's request for a one-month postponement of the December 31 deadline for settling the dispute.

A series of press reports from the US suggest, however, that the Reagan Administration is determined to take a tough line.

The 12 permanent representatives of the EEC member states in Brussels will hold a special meeting today to decide what action to take over the Christmas holiday — although both sides are commited to retaliation and counter-retaliation if not solution is reached.

The war of nerves heightened at the weekend after no response came from Washington to the EEC move to prolong negotiations.

US officials estimate the loss of grain sales to Spain, consisting mainly of maize and sorghum for animal feed, at up to $500m (£350m) a year, and say the dispute is potentially the most serious of all the trade rows of recent years.

They are demanding guaranteed access to the Spanish market for US feedgrains at levels which the EEC maintains are above total Spanish import needs. For its part, the Community insists that Spain should meet its needs largely from EEC sources like France and the UK, while the US will get compensation in the form of higher industrial sales.

Negotiations have narrowed the gap to the extent that the EEC is suggesting Spain may still import up to 1.6m tonnes in feedgrains and feedgrain substitutes (such as corn gluten food) from non-Communist sources including the US. That falls far short of the US demand for sales of about 4m tonnes out of total estimated import needs of 4.4m tonnes.

Mr Richard Lyng, the US Secretary for Agriculture, let it be known last week that he regarded the December 31 deadline as unchanged, and in the absence of any improved EEC offer of compensation, US retaliation would follow.

Officials in Brussels believe that there may still be some flexibility in the US position, however, and that the threatened retaliation may be delayed to allow for further negotiations.

US action seems likely to hit EEC exports of products such as wine, brandy, cheese, beer and chocolates, while the Community has promised to respond with higher duties on corn gluten feed, rice and wheat.

Canada stands firm on EEC pasta duty

By Bernard Simon in Toronto

CANADA is to maintain its countervailing duty on pasta imports from the European Community in spite of an EEC warning last week that the measure is a key irritant in bilateral trade relations.

A final determination of EEC pasta subsidies issued by the Canadian National Revenue Department last Friday differs only slightly from a preliminary estimate made when the duty was imposed at the end of September. A national revenue official said the final determination on non-egg pasta is 10 per cent lower than the first finding. The estimate of subsidies on pasta containing eggs is unchanged.

Italy accounts for about 95 per cent of imports affected by the duty, which is set at 24.6 cents per pound for non-egg wheat pasta and 28.7 cents per pound for pasta with eggs.

The duty remains provisional until the Canadian Import Tribunal determines the extent to which the subsidy has harmed domestic pasta producers. The EEC is expected to give evidence to the tribunal, whose findings will be made public before the end of January.

If the tribunal finds no evidence of injury to the local industry, duties collected so far will be refunded.

Although the EEC has complained to the General Agreement on Tariffs and Trade about the action against pasta, the Canadians insist that the contervailing duty is consistent with GATT rules.

Ottawa suspects that the EEC's concern is based largely on fears that any action taken by Canada will be used as a precedent by the US to apply protectionist measures in the more valuable US pasta market.

The pasta issue has brought a wide range of trade disputes between Canada and the EEC to a head. Community foreign ministers threatened last week to retaliate against Ottawa unless restrictions are eased on European exports including teabags, books, fish and asphalt oil.

Sakharov vows to stay outspoken

BY LIONEL BARBER IN WASHINGTON AND PATRICK COCKBURN IN MOSCOW

DR ANDREI SAKHAROV, the Soviet Union's most prominent dissident, who is expected to return to Moscow tomorrow from seven years of internal exile, said yesterday that he would continue to speak his mind on human rights in the country.

The Kremlin, in deciding to allow Dr Sakharov to return from exile in the closed city of Gorky, is obviously seeking to defuse the human rights issue by continuing to release prominent dissidents. But Dr Sakharov said in telephone interviews to various Western news organisations he would not curtail his advocacy for greater freedoms.

"I am going to live as I lived before my exile, and resume all my activities," he said in a telephone interview with The New York Times from Gorky.

Asked whether he had agreed not to take part in political activism in exchange for his release, Dr Sakharov said that Mr Mikhail Gorbachev, the Soviet leader, "never made such demands on me and I told him the exact opposite."

Mr Gorbachev had told him to return to Moscow to continue his work in theoretical physics "to work for the public good." Mr Gorbachev called Dr Sakharov last Tuesday on the scientist's apartment telephone, which had suddenly been re-installed.

Authorities in the Soviet central Asian republic of Kazakhstan, the scene of riots last week, were accused yesterday of complacency and told to improve the quality of local services, Reuter reports from Moscow.

An extraordinary meeting of the Kazakh Government heard that there were serious shortcomings in the Republic's housing, trade and medical services, production of major crops was below target and consumer goods were in short supply.

Mr Mikhail Solomentsev, a member of the ruling Politburo in Moscow who was sent to the Republic after the riots, and Kazakhstan's new Communist Party leader, Mr Gennady Kolbin, both addressed the meeting, the official news agency Tass reported.

The riots broke out in the Kazakh capital of Alma-Ata last Wednesday one day after Mr Kolbin, a Russian, was appointed party leader in place of Mr Dinmukhamed Kunayev, a Kazakh, who had ruled the Republic since 1964.

Diplomats in Moscow said they had received reports from Alma-Ata that seven policemen died in the riots and about 20 demonstrators were injured. The official Soviet media have said the disturbances were violent but reported no deaths.

However, Dr Sakharov told the Associated Press news agency in another telephone interview yesterday that he did not plan to give interviews as soon as he arrived in Moscow, but did not rule out saying a few words.

Sounding alert and friendly, the 65-year-old physicist and Nobel Peace Prize laureate said: "We'll see what happens." He confirmed that there were no conditions placed on his freedom by the Soviet authorities.

Dr Sakharov was a prominent figure in the Soviet development of nuclear weapons after the second world war, but became an increasingly dissident figure during the 1960s, campaigning for civil liberties and human rights. In 1980 he was exiled to Gorky, a city 250 miles east of Moscow where foreigners are forbidden to visit.

The surprise announcement that Dr Sakharov would be released and that his wife, Mrs Yelena Bonner, had been pardoned from her five-year term in exile on charges of anti-Soviet slander came on Friday. It appears to mean that Mr Gorbachev is prepared to take a calculated risk that the release of prominent dissidents will defuse the human rights issue in the Soviet Union as well as showing that a more liberal atmosphere now prevails.

The more liberal approach by the Kremlin was underlined at the weekend by the news of the release of Mr Mustafa Dzhemilyov, a Tartar campaigning for the return of people of his nationality to the Crimea, from which they were removed by former Soviet leader Josef Stalin for suspected collaboration with the Nazis during the last war.

Miss Irina Ratushinskaya, a Ukrainian poet, was allowed to leave the Soviet Union for Britain last Thursday after her release from imprisonment.

In an interview in February Mr Gorbachev said that a little over 300 people were being punished in the Soviet Union for "crimes against the state."

Mr Anatoly Shcharansky, a prominent dissident now in Israel, estimated that there were between *400 and 500 state* criminals imprisoned for political beliefs and deemed especially dangerous by the Soviet authorities.

Mr Shcharansky also claimed that there were between 15,000 and 20,000 prisoners of conscience of all sorts in the Soviet Union.

S Africa tightens curbs on three papers

By Jim Jones in Johannesburg

THE South African Government tightened its censorship laws at the weekend by placing additional reporting restrictions on three liberal newspapers.

General Johan Coetzee, the Police Commissioner, barred the Weekly Mail, the Sowetan, and City Press from reporting statements advocating a special anti-apartheid protest over Christmas. The newspapers are also prevented from accepting advertisements from anti-apartheid groups organising Christmas protests.

The restrictions follow others on the three newspapers early last week and represent a blanket ban on their reporting of the "Christmas against the emergency" campaign.

Coinciding with the bars on the liberal press, the Bureau for Information, which co-ordinates the Government's censorship and *propaganda* activities, has placed a large advertisement justifying the state of emergency and press curbs in establishment newspapers.

The advertisement claims, among other things, that the emergency regulations were not directed at "the established media."

The Christmas campaign began with a candlelight vigil in black townships on December 16. It seeks to persuade all South Africans to mark Christmas as a time of peaceful protest against apartheid and the state of emergency and of remembrance for the country's political prisoners. Observance *of the campaign* is understood to have led to violence and shooting in Soweto.

Early last week the three newspapers were served with special orders preventing them from quoting a dozen anti-apartheid groups which support the campaign. The Sowetan and City Press are largely read by black South Africans.

● OK Bazaars, one of South Africa's three largest supermarket chains, has sacked about 320 employees involved in a legal strike at stores in Natal. The Commercial, Catering and Allied Workers' Union of South Africa said at least 425 strikers were arrested after allegedly refusing to leave shop premises and after allegations of violence.

Mitterrand outflanked over work-time law

BY GEORGE GRAHAM IN PARIS

THE FRENCH Government swept its controversial legislation on flexible working time through parliament in an all-night session at the weekend, just beating the deadline before the Assembly broke up for Christmas.

The manoeuvre followed the refusal last week of President Francois Mitterrand to sign the legislation in the form of an ordinance and marks a hardening of positions in the delicate "cohabitation" between the socialist president and the right-wing Government of Mr Jacques Chirac elected in March.

The legislation was put through as an amendment to another bill, without the usual discussion in parliamentary committee and without the possibility of further amendment. It was passed by the Assembly early on Saturday and by the senate in the afternoon.

The Socialist minority, which had tried to hold up the amendment in parliament, now plans to appeal to the Constitutional Council.

Mr Philippe Seguin, Employment and Social Affairs Minister, who is responsible for the bill, defended the Government's tactics.

President Mitterrand's refusal last week to sign Mr Seguin's flexible working time proposals as an ordinance had seemed set to delay their implementation until the next session of parliament in April.

The parliamentary timetable was too tigh tto put the project through in the normal way before Christmas. Mr Chirac had given up his plans for a special legislative session in January in the wake of his government's humiliation earlier this month at the hands of the students over its proposed reform of higher education.

Mr Mitterrand was keen to delay the measures, which he believes touch on a sensitive social issue and represent a backward step overwhelmingly in favour of employers.

The measures will allow companies to negotiate working weeks of up to 44 hours without overtime pay in peak seasons, so long as the average week worked over a year does not exceed the legal norm of 39 hours. In addition, they will end the ban on night work by women.

In the past two weeks the Government has been soft-pedalling on its social reform programme following the violent end to student demonstrations against the higher education bill

European split on air transport widens

BY MICHAEL DONNE, AEROSPACE CORRESPONDENT

FURTHER evidence of the split in Europe on air transport reform emerged at the weekend when several countries, including the UK, Holland, Belgium and Eire, refused to sign an agreement on reforms reached at a meeting of the European Cvili Aviation Conference in Paris.

The conference represents 22 European air transport authorities, including many outside the EEC. The two organisations are separate.

Mr John Moore, UK Transport Secretary, castigated the conference pact as worthless, arguing that it merely "shored up the existing system" rather than make real steps towards a more liberal regime.

"This ignores the substantially greater progress made within the EEC under the UK presidency," he said.

The UK Transport Department pointed out that in the past the conference had tended to be conservative in its approach to European air transport reform and liberalisation.

The Transport Department said: "Its new scheme on tariffs is based solely on existing fares types. There is no assurance that off-peak fares will be approved and the Saturday night/six-night minimum stay rule remains compulsory for all cheap fares.

"There would thus be little or no benefit to any category of traveller."

On capacity, the conference scheme allows any two countries to vary their shares of the market only within a 55-45 per cent ratio, unlike the 60-40 per cent ratio already agreed in principle in the EEC.

Moreover, the conference has proposed nothing in the area of market access, which the UK claims is "central to creating a liberal, competitive market."

Mr Moore claimed yesterday that it was doubtful whether the conference scheme was compatible with the competition rules of the Treaty of Rome "and they fall a long way short of the Commission's minimum requirement for exemptions from the competition rules."

The UK warned other conference members that any EEC states which endorsed the plans might be in breach of their *community obligations*.

EEC set to open up public supply purchasing

BY WILLIAM DAWKINS IN BRUSSELS

MEASURES to open up public supply purchasing to freer competition are likely to be agreed today at a meeting in Brussels of the EEC's 12 industry ministers.

If they sanction the proposal, EEC officials believe this will be the most important step towards the creation of a barrier-free market taken during the UK's six-month presidency. A second proposal dealing with public works contracting—as opposed *to supplies—is* due to come before member states for agreement early next year.

The supplies directive is meant to stamp out abuses of EEC regulations requiring public purchasers to put contracts out to tender among a pre-determined number of suppliers. The EEC Commission has become increasingly anxious about the growing number of public authorities that are using let-out clauses to stick with favoured suppliers on the grounds of urgency or industrial secrecy.

The new rules would oblige central purchasing authorities to give the Commission advance annual *notice of the sort of pur*chases they plan in the coming year. This would be published in the Official Journal of the European Communities, to give interested parties a chance to ask for more details.

The part of the proposal which has been the most serious barrier to agreement so far suggests that *public* authorities should adopt EEC product standards where they exist.

EEC Industry Ministers have the opportunity today to reach an accord on a new shipbuilding aid code, William Dawkins writes from Brussels.

The five-year regime would cover all types of assistance, from direct subsidies to tax incentives. The present system, which covers direct aid alone, is due to expire at the end of the month, but the EEC Commission has proposed a new directive in recognition of shipbuilders' continuing competitive problems.

If ministers fail to agree, all individual aid proposals will have to be sanctioned by the Commission as from January 1 which officials fear will be less consistent than the present system.

National officials are understood to have hammered out ways of allowing public purchasers to opt out of standardisation where appropriate.

Relatively minor objections have also come from Britain and West Germany, which are concerned about the proposal's implications for purchasing authorities' cost effectiveness.

Like the current rules, the new directive will not apply to the important sectors of energy, transport, water or telecommunications. However, an agreement on supplies will add political impetus to the Commission's efforts to bring forward directives for those areas by 1992, *the* EEC deadline for the creation of a free internal market.

US rapped for machine tool import curbs

By Andrew Fisher in Frankfurt

The US Government's decision to clamp down on machine tool imports from West Germany has been sharply criticised by the American Chamber of Commerce in Germany.

If the US carried out its stated intention of limiting imports, the chamber would make strong representations in Washington, said Mr Albert Hicks, presiden.. of the Frankfurt-based organisation.

Mr Martin Bangemann, the German Economics Minister, has already written to the US saying that Bonn could not accept limits on sales.

If the US went ahead with its measure, which would be directed at sales of machining centres, lathes, and punching and shearing machines, Mr Bangemann said Germany and the EEC would defende their rights and interests.

He added in his letter to Mr Malcolm Baldrige, US Commerce Secretary, and Mr Clayton Yeutter, U STrade Envoy, that Germany had made clear that German manufacturers were unilkely to gain such a high market share as Japan and Taiwan.

Mr Hicks said the US action was not in the interests of national security, as argued by Washington. It was clearly protectionistic and would put US industry at a disadvantage by denying access to high-quality production machinery.

Italian budget approved

BY ALAN FRIEDMAN IN MILAN

THE ITALIAN Senate yesterday voted to approve the Government's 1987 budget, which calls for the annual public sector deficit to be reduced to L100,000bn from this year's level of L110,000bn.

The voice vote in the Senate, which followed three votes of confidence on various individual articles on Saturday, means the budget has now been approved in its definitive form. The Chamber of Deputies had previously approved the budget

Mr Giovanni Goria, the Treasury Minister, declared yesterday that the rapid approval of the budget without any changes in the amount of deficit forecast, represented an achievement for Prime Minister Bettino Craxi's five-party coalition Government.

The approval of an Italian budget before Christmas is something of an achievement. The budget is presented in September, but has on several past occasions not been approved until the opening months of the New Year.

French outcry leads to withdrawal of new coin

BY PAUL BETTS IN PARIS

FRANCE'S new FFr 10 (£1.1) piece will have had a short and unhappy life. Barely two months after its introduction, Mr Edouard Balladur, the French finance and economy minister, has decided to withdraw the coin by the end of this month.

The decision follows a public outcry against the coin, which looked like the old 50 centime piece but was worth 20 times more.

Unlike the British £1 piece, which was also initially criticised because it was too heavy, the French coin was attacked as too light and too small.

Mr Balladur had asked for an official review of the matter. The choice before the Government was whether to keep the coin and withdraw the old 50 centime piece, or hope that the confusion between the two would only be temporary.

However, the Government has decided to withdraw the coin because the FFr 100m cost of this operation is below the FFr 500m it would have cost to do away with the old 50 centime piece.

The idea to introduce a new FFr 10 piece was taken by the former Socialist government in September 1984. After a long study, the administration decided that the new coin had to be lighter and less cumbersome than the current copper-coloured version.

Many critics of the coin now appear anxious to lay their hands on it because they expect it to become a collector's item after its withdrawal.

Greece and Turkey play down border incident

BY ANDRIANA IERODIACONOU AND DAVID BARCHARD

*THE GREEK and Turkish Gov*ernments both appeared determined at the weekend to play down the border clash in which two Turkish soldiers and one Greek soldier were killed. A second Greek soldier was injured.

In Ankara there was disappointment but little surprise that Greece had effectively rejected demands for a joint investigation of the incident. Greece has demanded "moral and material compensation" as a pre-condition for any inquiry.

Mr Yiannis Kapsis, Greek Deputy Foreign Minister in charge of relations with Turkey, said yesterday of Friday's incident: "I hope cool headedness will prevail."

Earlier yesterday Mr Kapsis met with the US Ambassador to *Athens, Mr Robert Keeley*, who reportedly urged the Greek side to exercise self-control. Mr Kapsis also summoned Mr Nazmi Akiman, Turkey's Ambassador, to lodge a second strong protest over what Greece alleges was a deliberate ambush of a Greek border patrol.

Tempers have been running high for several weeks on the border because of a large influx of Iranian refugees trying to cross in Greece.

Relations between the two members of the North Atlantic Treaty Organisation have been strained since 1974, when Turkey invaded and occupied part of Cyprus following a Greek military coup on the island.

Leaders of the main Turkish opposition parties have expressed their shock that such a border clash could happen on the frontier between two Nato allies.

The clash has shown how fragile the peace between the countries has become. There is also persistent tension in the Aegean Sea, where the countries are at odds over air space and seabed rights, and the fortification of the Dodecanese and other islands close to Turkey, which Turkey claims violates treaty agreements between the two.

Shultz to meet Tambo

By Lionel Barber in Washington

MR GEORGE SHULTZ, the US Secretary of State, is to meet Mr Oliver Tambo, President of the African National Congress, in Washington next month in a move likely to add status to the anti-apartheid guerrilla group.

The US is currently re-assessing its policy towards South Africa. The Shultz-Tambo meeting is further evidence of Washington's desire to put pressure on the Pretoria Government into dismantling apartheid.

France outlines Morocco aid

France has offered Morocco an aid package worth FFr 1.25bn (£1.3m) for 1987, roughly the same amount offered this year.

The package includes FFr 500m worth of Treasury loans in support of Morocco's balance of payments and FFr 750m worth of export credits and aid to finance a variety of products, writes **Francis Ghiles in Paris.**

FINANCIAL TIMES

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Hugh Carnegy reports on the loss of retail trade to N Ireland

Shoppers spurn the Republic

MR EAMON DEVLIN runs, among other things, a petrol station, supermarket and electrical goods store on a wind-swept country road between two Irish Republic towns. Both are some miles away and there is not much of a local population to speak of.

On the face of it, it is an unpromising spot for a retailer. But, as Mr Devlin puts it, with a satisfied grin, his business is "flying." As Christmas approaches, he is selling 30,000 gallons of fuel and has 4,000 customers at his shops every week.

The reason for his success is quite simple: The road from Dundalk in County Louth to Castleblaney in County Monaghan runs for a few miles through County Armagh which is in Northern Ireland. Thanks to his position on that stretch of road, Mr Devlin is one of the most spectacular beneficiaries of the flood of retail trade that is flowing across the border from the south.

Although there are no official figures on either side of the border on the volume of the trade, almost everyone agrees that, this Christmas, it is as great as it has ever been and probably surpasses a previous peak in 1984.

Principally because of widely divergent VAT and excise duty rates between the Republic and the North, cross-border trade from the south has been a feature for four years. This year it has become what one exasperated County Monaghan supermarket owner called an exodus, mainly because of two additional factors.

One is the price of petrol. In Northern Ireland it has fallen over the past year to just below £1.70 a gallon while the hefty government levy in the south has kept the price there almost 90 pence per gallon higher. The second factor is the narrowing of the two currencies. A year ago, one Irish pound bought about 85 pence sterling. Now it buys around 95 pence.

The effect in the North, as Mr Devlin will tell you, has been a huge boost to the retail trade. It has contributed to a consumer boom over the past few years in Belfast where, on the past few Saturdays before Christmas, queues of southerners, some from far beyond Dublin, could be seen outside favourite stores. Smaller towns closer to the border, such as Newry, have also benefited hugely.

But what of the effect in the Republic?

In the border areas it is crippling many retailers. "We're losing at least 20 per cent of our business in Monaghan town" said Mr Willie McKenna, chairman of the Monaghan Chamber of Commerce. "It's right across the board. For some items there's not much difference in price, but the fact that people go up there at all means they buy there."

He said six petrol stations had closed down in Monaghan in the past 12 months. Along the border as a whole, the total figure is reckoned to be more than 50. Apart from petrol, the chief items on which there is a price difference are electrical goods — because of 25 per cent VAT in the south compared with 15 per cent in the north — beer, spirits, minerals, confectionery, soap powders and, crucial at Christmas time, toys.

In nearby Carrickmacross, businessmen say three local banks paid out £30,000 to shoppers heading north on one recent Friday.

"That's a tremendous amount for a town of this size and it doesn't take into account the people who shop with Irish pounds in the North," said Mr Ray Howell, a jeweller who has cut his staff from seven to two in the past 18 months.

"I tend to blame the Government for not recognising the effect of their tax policies in the border area," said Dr Rory O'Hanlon, a local member of parliament for the opposition Fianna Fail Party. But he agrees there is no scope in the Republic's deficit-strapped economy for major slashes in VAT and other duties. Ideas to relieve the pressures that are gaining currency in the border area are for the de-rating of business premises and the introduction of a petrol voucher system.

Shoppers from the Republic of Ireland stock up with cheaper goods in Newry, Northern Ireland

Asea wins big power order from Quebec

BY KEVIN DONE, NORDIC CORRESPONDENT IN STOCKHOLM

Asea, the Swedish electrical engineering group, has won a $350m (£244m) order to supply HVDC power transmission equipment from Quebec, Canada, to power utilities in the north-east of the US.

The contract, one of the biggest of its kind, was won in competition chiefly from Brown Boveri of Switzerland and General Electric of the US.

Asea has been a pioneer in the use of HVDC (high voltage direct current) technology for power transmission over long distances and claims a world market share of about 50 per cent.

Its latest order is to provide equipment for the second phase of the Quebec-New England HVDC transmission system, which it claims will be the world's first multi-terminal HVDC scheme with five terminals.

The project will take six years to complete and the final commissioning is planned to take place in 1992.

The transmission system is part of the power supply agreement made between US utilities in the New England power pool and Hydro-Quebec for the delivery of up to 11bn kilowatt hours a year of electric power from Quebec.

The power will be generated in the Baie James area. It will be rectified and transmitted on the HVDC line before converted back to alternating current for distribution to customers in New England.

Asea already has power equipment manufacturing facilities and engineering centres in North America.

Ericsson, the Swedish telecommunications and electronics group, has won an SKr 850m (£90m) order for a new form of combat radio system for the Swedish army and navy, Kevin Done reports from Stockholm. The group's Starcom system uses "frequency hopping" for voice and data transmission, to provide protection against jamming interception. Transmissions take place according to a coded system on different frequencies over the entire frequency band. Marconi Defence Systems of the UK, a subsidiary of GEC, will be a major subcontractor and will supply important parts of the transceiver.

SHIPPING REPORT

Tanker market anxious on Opec output prospects

BY KEVIN BROWN

ATTENTION in the tanker market last week centred on the efforts of the Organisation of Petroleum Exporting Countries to reach agreement on reductions in output.

Brokers said an agreement on reduced quotas could only be regarded as bad news for owners, particularly those with very large and ultra-large tonnage trading from the Gulf. Such a deal was finally hammered out at the weekend.

Elsewhere, activity was reasonably bouyant, with owners achieving in excess of Worldscale 80 for Mediterranean cargoes of 80,000 tonnes to southern Europe.

Similar-sized cargoes from West Africa to Europe were being fixed around Worldscalo 50.

Galbraith's, the London brokers, said rate levels for December loadings from the North Sea to European destinations were expected to improve from the present level for 80,000 tonnes of about Worldscale 70 to in excess of Worldscale 80.

For owners of product tankers, the Mediterranean was said to have proved the best market, with demand keeping rates firm.

Islamabad admits Sikh movements over border

By John Elliott in New Delhi

PAKISTAN HAS admitted to India for the first time that Sikh extremists have been allowed to cross between India's troubled northern state of Punjab and Pakistan.

The admission emerged from Indian officials' interpretations of a joint communique issued last night after talks between officials of the two countries in the Pakistani city of Lahore made significant progress on tense cross-border issues.

The communique said "illegal crossings and terrorism have become interlinked with each other," the first time such an admission has been made, despite Indian allegations for the past two or three years.

It was also announced in the communique that the two countries' border security forces are to work closely together. Committees are being set up to examine drug trafficking as well as terrorism.

This apparent change in Pakistans stance comes at a time when there have been growing fears in the country that large-scale Indian army manonevres planned for the border area during the next few weeks will not only be much larger than usual but might also lead to an Indian invasion.

Rumours of an invasion are dismissed by the Indian Government and are being discounted officially in Pakistan.

But rumours are persisting in Pakistan and officials believe the Pakistan Government may be hoping to dispel them by launching co-operative cross-border moves with India.

Mr C. G. Somiah, India's Home Secretary, who led the delegation at the talks, said last night that Pakistan was more receptive than in the past to India's allegations.

No country, he said, could admit that terrorists were crossing the border now. But the Pakistan officials could and did indicate it should not happen and would not happen in the future.

Attempts to improve relations between the two countries will continue at meetings between their foreign secretaries in Pakistan this week.

John Elliott on the reasons for the mass resignation of a country's Cabinet

Pakistan political drama that isn't a crisis

THE RESIGNATION of the Pakistan Cabinet at the weekend dramatically marks the end of the country's first year free from the constraints of nearly a decade of martial law.

It is a year which has included major political and administrative events and crises, including the return to the country of Miss Benazir Bhutto, the opposition leader, a series of increasingly serious disturbances in Karachi, the country's commercial capital, and the administrative mishandling of the Pan Am hijack at Karachi airport in September.

Coming a few days after riots in Karachi left over 150 people dead and about 700 injured, the resignations also underlined the fragility of Pakistan's under-developed political system and governmental administrative machine as the country edges its way into a form of parliamentary democracy nearly 10 years after President Zia ul-Haq took over in a military coup in 1977.

But last night the resignation offer from the 21 Cabinet ministers did not appear to indicate any immediate political crisis. The move did not seem to have been a direct result of the riots.

It is believed the reshuffle had been planned by Mr Mohammad Khan Junejo, the Prime Minister, earlier this month — but was delayed by the riots, which made him more determined to act.

Pakistan is conscious that it needs to improve its international image. In the next few weeks, the US Congress will be considering a $4.2bn (£2.9bn) six-year economic and defence aid package which could run into trouble because of Pakistan's nuclear and other policies.

The technique of submitting mass resignation has been used before. It allows some ministers to be dropped and others to be promoted or appointed without anyone suffering the stigma of being summarily sacked.

President Zia's regime is intact, even though the riots illustrated some of the side effects of his rule, including social tensions created by an influx of refugees from Afghanistan, widespread availability of sophisticated weapons intended for Afghan guerrillas, and increasing drug trafficking and addiction, as well as a general lack of effective civilian administration.

He has gradually ended his period of direct military rule in the past two years, first by declaring himself an elected president for five years in a referendum on his policies of Islamisation.

Then he appointed Mr Junejo as Prime Minister after non-party parliamentary elections early last year. He ended martial law last December 31, and Mr Junejo then appointed his own Cabinet, taking over day-to-day running of the country.

President Zia unexpectedly retained the post of Chief of Army Staff and remains in supreme command of the country, with his fellow generals.

Complicating this gradual transfer to democracy, Miss Bhutto returned to Pakistan in April from exile in London and stormed the country with a popularity bandwagon which drew crowds of tens of thousands.

She increased political uncertainty but failed to turn the bandwagon into an effective political campaign to push through her demands for party-based parliamentary elections this year.

So having dislodged neither President Zia, her main target, nor Mr Junejo, she has trimmed her sails and adopted a more gradualist approach. One of the basic problems in the country is a lack of sound democratic party political institutions.

Parties of the pre-Zia era have little credibility apart from Miss Bhutto's Pakistan People's Party. But even the PPP suffers from unpopularity stemming from the secret police and other excesses of the regime run by her late father, President Zulfikar Ali Bhutto, ousted by Zia in 1977 and subsequently executed.

President Zia wants to create new cadres of political activists, centred on the New Pakistan Muslim League of Mr Junejo.

But most of the politicians who have emerged have little stature or experience and an experienced minister, such as Mr Mahbubul Haq, who held the finance portfolio, has been demoted. The administration of the country has suffered, both nationally, and in provincial governments such as Sind, of which Karachi is the capital.

There have been complaints for several months that inexperienced central Government ministers have spent most of their time exercising patronage in their home localities and building up the New Muslim League Party.

These criticisms have now sharpened with increasingly public allegations of corruption, including ministers conducting their own irregular business deals. At the same time there have even been complaints from local party workers that the ministers have not been exercising their patronage properly, failing to hand out the favours expected of them in a developing country like Pakistan.

Mr Junejo has had significant personal political setbacks during the past year, which have damaged his prestige. So, pushed by President Zia who is not ready to admit he chose the wrong man as his first Prime Minister, Mr Junejo apparently decided earlier this month that his best chance of survival was to revamp his Cabinet with an almost sacrificial demonstration of cabinet atonement.

Mr Mohammad Khan Junejo (left), Prime Minister of Pakistan, is expected to announce a new Cabinet early this week, Mohammad Aftab reports from Islamabad.

Mr Junejo, 54, the first Prime Minister under President Zia, has been increasingly worried about the Government's failing public image and about corruption among some of his 21 federal ministers and 13 junior ministers of state.

The outgoing Cabinet has also been heavily criticised by the business community for its lack of coherent policies on commerce, foreign trade and investment.

Indian move on drugs output

BY OUR NEW DELHI CORRESPONDENT

INDIA has announced a new pharmaceutical production policy which increases profit margins and relaxes industrial licensing controls in an attempt to increase the domestic output of 40 essential drugs by between four and five times in the next five years.

Non-essential drugs are also to be banned for the first time in India in line with a list of priorities to be drawn up by a National Drug and Pharmaceutical Authority, which will be created in the next three months.

The changes are partly designed to encourage the expansion of Indian-owned companies in an industry made up of about 8,000 companies including 1,500 medium and large concerns, 11 of which are more than 40 per cent foreign-owned. Together the companies produce formulations worth about R19bn (£1.02bn) a year.

Foreign-owned companies will come under pressure to increase their basic manufacturing in the country. Their permissible maximum output ratio of basic drugs to formulations is to be reduced from one: five to one: four.

As in other developing countries such as Bangladesh, India's small neighbour, the Government wants to encourage the local manufacture and quality of the most essential drugs.

This will be achieved partly by the banning of the non-essential drugs and by raising the price mark-up allowed on manufacturing expenses of 40 essential drugs needed for India's National Health Programme from between 40 and 55 per cent to a maximum of 75 per cent. The margins on a further list of essential drugs will rise up to 100 per cent.

Mr Jaichandra Singh, Minister of State for Chemicals, said this would cause retail prices to rise by up to 25 per cent.

Industrial licensing is to be relaxed in line with the Government's overall industrial policy, benefiting Indian-owned and smaller companies which do not fall within the ambit of the country's monopoly and foreign exchange legislation. Production for export is being de-licensed.

Indian-owned companies are to be allowed to produce penicillin and polio vaccine for the first time in an attempt to cut imports.

World Economic Indicators

TRADE STATISTICS

		Oct. 86	Sept. 86	Aug. 86	Oct. 85
US $bn	Exports	19.330	17.518	17.604	17.618
	Imports	31.389	30.078	30.925	29.695
	Balance	−12.059	−12.560	−13.321	−12.077
UK £bn	Exports	6.206	6.072	5.468	6.329
	Imports	7.041	6.956	6.981	6.328
	Balance	−0.835	−0.884	−1.513	+0.001
France FrFbn	Exports	71.830	73.160	71.930	77.540
	Imports	71.890	76.060	68.680	77.160
	Balance	−0.060	−2.900	+3.250	+0.380
W. Germany DMbn	Exports	43.690	43.400	43.780	44.580
	Imports	35.000	34.300	32.770	38.190
	Balance	+8.690	+9.100	+11.010	+6.390
Japan $bn	Exports	19.141	19.054	16.837	16.033
	Imports	11.327	10.103	9.359	11.678
	Balance	+7.814	+8.951	+7.478	+4.355

THE MONDAY PAGE

INTERVIEW

France's odd man in...

Philippe Seguin, Minister for Social Affairs and Employment, talks to **David Housego**

IT IS not every French Minister who can claim to have endowed the English language with a French expression. But Philippe Seguin chuckles with pleasure at the speed with which his international colleagues at the recent OECD meeting of employment ministers have taken to using the French term "petits boulots" (literally small jobs) to describe the type of part-time work that needs to be created on the fringes of the official economy to help bring down unemployment.

"I shall long remember Kenneth Clarke (the British Employment Minister) making use of 'petits boulots' in French in his English text," he says. "But that was nothing beside the Finnish Minister citing 'petits boulots' in a speech in Finnish. It was worth going a long way to hear."

"Petits boulots" is now the common name in France for Seguin's scheme to take advantage of the potential new jobs that can be created in the home (mothers' helps, companions for the aged) or that lie on the edge of the black economy (plumbers, odd-job men, newspaper boys in communities that are too small to provide such work on a full time basis).

Ridiculed initially in France by the Communist-led CGT union, the idea has since won popular support and been taken up internationally.

"We have a few weeks advance on other industrialised countries in terms of systematically searching out where such fresh employment possibilities might lie," he says.

As Minister of Social Affairs and Employment in a conservative administration that was most likely to come under attack on these issues from both the unions and its Socialist opponents, Mr Seguin has had one of the heaviest loads to bear. That there have been no large labour conflicts—beyond the students' demonstration—is in large measure due to the skill with which he has tackled his job.

He was holding the fort for the Government last week in the National Assembly when it came badly under attack for the death of a student during the violence. But he is reluctant to talk about the issue.

A mountain of a man, with a reflective mind but who easily explodes into laughter, he is something of an odd man out in the French cabinet. In a government that proclaims its free market philosophy, he puts his faith in collective bargaining, in change negotiated with the support of the trades unions, and in an economic efficiency that does not destroy the social consensus.

PERSONAL FILE

1943—Born in Tunis

1969-70—Studied at Ecole Nationale d'Administration (ENA)

1973-74—Adviser to President Pompidou

1977-78—Adviser to Prime Minister Raymond Barre

1978—Became Deputy for the Vosges region

1983—Became Mayor of Epinal

Before joining the neo-Gaullist RPR party of Mr Jacques Chirac, he was an adviser in the private offices of both former President Pompidou and former Prime Minister Raymond Barre. When the right was in opposition after 1981 he got himself into trouble with his colleagues in the RPR by arguing that the party needed to recognise the new realism in Socialist policies.

In French political terms, he thus describes himself as a Gaullist—a term that combines maintaining France's role in the world while giving priority to social cohesion at home.

In British terms he would count himself among the "wets" in the Conservative Party. He values change by consensus in the Disraeli style rather than in the Thatcher administration's combative approach to tackling labour market rigidities and wage flexibility.

He is thus popular with the trades unions and regarded with suspicion by the French employers' association.

He is often spoken of as a potential Prime Minister who could serve equally under Mitterrand, Barre or Chirac—depending who wins the next Presidential election.

Mr Seguin believes that the notions of part-time working, temporary jobs and even "moonlighting"—once taboo in France where anything less than a full time job was thought degrading—are now gaining acceptance.

What is new, he says, is that the combination of the Socialists' failure to achieve their employment pledges and the right's realisation that it would have to revise downwards its own job forecasts, means that both sides have come to share a similar analysis.

"There is an unavowed consensus," he says, "that the classic forms of employment cannot in the years to come guarantee a fall in the number of jobless. There are several reasons for this. The demographic trend facing us between now and 1990-95 means that the active population will rise on average each year by 200,000 people.

Mr Seguin believes that in the situation in which unemployment has reached 2.5m and unemployment benefit provides only a limited protection, "moonlighting" or black market labour has provided an outlet that has prevented a social explosion.

Certain types of black market labour — such as putting up buildings without declaring them — he thinks are to be wholly condemned. But with other types of "moonlighting" helping somebody unblock a lavatory, for instance — "our aim is to bring back the job into the official economy. We are drawing up a list of possible jobs, looking at why they have been in the black economy and then we will see what measures are necessary to reintegrate them." The measures could take the form of a reduction in social security charges and exemptions of personal and corporate tax.

Mr Seguin was much struck by a scheme he heard of in Chicago where "there are associations that bring together the unemployed and those who have need of small services." He is considering setting up something similar in France, not in competition with local employers but something which could provide jobs for the unemployed.

Mr Seguin believes that "petits boulots" and the community work-type schemes brought in by the Socialists and continued by the Chirac Government will become part of the permanent social landscape to soften the impact of unemployment.

"In organisational terms," he says, "the trades unions are not concerned. Their first preoccupation is with those who work or who risk losing their job. They are not worried about the unemployed. And those who are out of work do not see themselves represented in the trade unions."

Mr Seguin also believes that such schemes are the price to be paid for avoiding too brutal a flexibility in the labour market.

Though many of the French right believe the Government should have pushed harder to give companies more flexibility in setting wage levels or in dismissing employees, Mr Seguin does not agree. His approach is based on patience and negotiation.

"It is not possible to do all at once," he says, "and it is not desirable in terms of maintaining the equilibrium of our society. We must adapt and modernise our structures, our regulations, our procedures and our habits. But we must do it at a pace and with teaching methods that are in tune with the receptivity of public opinion and of those groups most concerned."

Mr Seguin believes that the cautious approach he has adopted over such sensitive issues as changing the redundancy laws and reducing social security spending, along with his refusal to countenance any undermining of France's system of the minimum wage, have all helped to avoid the type of explosion that has occurred among the students.

"I note paradoxically," he says contentedly, "that though I have been responsible for the most explosive issues, the demonstrations have been on other subjects."

Mr Seguin fought tooth and nail with the Ministry of Finance when the right came to power to obtain a large Budget that would allow companies to be freed in whole or in part from Social Security charges if they employ young workers under 25.

The scheme has proved a success, since some 720,000 youths have found jobs with companies, often combined with part-time training courses.

Mr Seguin is worried, however, about France's capacity to provide adequate training either for those entering the workforce or those who need retraining in mid-career.

"In general we need to begin everything again," he says. "One reason is that our major laws on training date from a time when we did not have an employment problem."

Mr Seguin believes the problem stems from the gap between the education system and industry. "They are two institutions which detest each other," he says. "Employers believe that anybody coming out of the national education system is an illiterate and that everything needs to be done again. The education system, on the other hand, believes that they should avoid contact with employers because they will be ensnared by Big Business."

Mr Seguin thinks that things have now begun to change. The solution that the Government favours would provide a link between school and industry through a scheme that gives students a chance of in-house training in industry, coupled with pursuing their studies in an institution that is not necessarily a school.

He says that France could have followed the German practice, which is to concentrate training in industry itself. But given French traditions, he thinks that the path chosen of alternating training in industry with periods in educational institutes is the best.

Since 1983 government, unions and employers have begun to put this system into effect. The Government's recent measures to encourage youth employment by cutting companies' social security charges were intended to give it an extra push. "But probably we must go even further," Mr Seguin says, "and try to systemise the arrangement and envisage similar training/work programmes for the elder unemployed."

Twist at the end of Big Bang year

BARRY RILEY

AT THE end of Big Bang year, the astonishing thing is that the securities market revolution has struck right to the heart of the Stock Exchange itself on the 22nd and 23rd floors of its tower block.

Earlier in the year the focus of attention was on the individual member firms, and whether they would survive the turmoil of Big Bang. In the event, there has been little excitement on that front (though no doubt 1987 will bring its share of thrills and spills).

But the Stock Exchange has suffered an amazing transformation. Last Tuesday its ruling Council met for the very last time. On Christmas Eve its members' terms of office will expire, and all the old committees will be disbanded. In the New Year everything will have to start afresh.

To the man in the street, not much may appear to have altered. The organisation will still be called the Stock Exchange.

There will still be a Visitors' Gallery where embarrassed guides attefpt to explain why the hexagonal booths on the trading floor, bristling with £3m worth of the latest electronic technology, are deserted.

There will have been a fundamental change in the government and personality of the exchange. The new exchange has been formed out of the merger of the old exchange and Isro, the international dealers' body. Moreover its functions are being split, with some of its old supervisory activities (and a good many new ones) being spun off into a new body called the Securities Association.

The Isro merger is important because it brings in large numbers of new people. Representation of Isro and old Stock Exchange men has been carefully equalised on the new exchange council and the same will apply to membership of all the new committees responsible for the detailed work.

Naturally the hope is that such "them and us" balancing policies will soon cease to be necessary as the memberships fuse together but it has to be recognised that the newcomers are from a different background, mainly in Eurobonds.

Neutral observers say, perhaps unkindly, that the Eurobond representatives are generally of a higher quality than the old Stock Exchange council members, and will therefore tend to dominate.

At any rate, during its short necessary as the memberships

Unkind observers say the Eurobond men are of higher quality

independent existence Isro decisively won its major political battles, both with the Stock Exchange over future market structure and with the Government over immunity for the boards of self-regulatory organisations.

If that is a guide, the new exchange could prove more aggressive and robust.

Yet the new exchange will not be its own boss in quite the way the old one was. It will be a so-called Recognised Investment Exchange, fitting into the new framework supervised by the Securities and Investments Board.

The SIB will lay down the guidelines which RIE's must follow, including reporting systems, audit trails and so forth. At the same time authorisation of the firms trading on the Stock Exchange will be the responsibility of the Securities Association, which will rank as a self-regulatory organisation.

Exactly how separate the Securities Association will be is the subject of active discussion. In the past the old Stock Exchange doubled as an SRO and a market. Now it is accepted that there must be two legally distinct bodies, but the proposal is that they will share much of their administrattive apparatus.

An argument for greater separation arises from the fact that by no means all the firms likely to seek authorisation to conduct investment business from the Securities Association will wish to trade on the Stock Exchange.

Roughly a third could come into this category. These include, of course, Eurobond traders who only wish to operate on the separate RIE being set up by the Association of International Bond Dealers.

This has created one of the demarcation disputes now being fought between SROs. The Association of Futures Brokers and Dealers naturally regards Liffe as part of its exclusive domain but the Securities Association does not see it that way.

It argues that financial futures are now so closely integrated with day-to-day securities business that it should be able to authorise its members to trade on Liffe. Certainly the association will need to develop expertise in this area if it is to supervise its members effectively.

It wants the regulatory boundary to be drawn between commodity futures and financial futures. The AFBD only concedes traded options on individual stocks to the Securities Association. The arguments continue to rage and whatever happens there will be a lot of overlap.

Such power struggles will add spice to what could be a curious six months for financial regulation. The new SROs, like the Securities Association, will have no power until, perhaps, June when they are recognised by the SIB, which itself is unlikely to be empowered before Easter.

Then there will be a further few months before the full provisions of the Financial Services Act come into force late in the year and it will become illegal to conduct investment business without authorisation.

At least the Stock Exchange will not have to contend with the pressures of Big Bang in 1987 but there could be a few bust-ups.

TAKE A LETTER MISS FANSHAWE... DEAR MR. CLAUS... NO, MAKE IT PERSONAL... DEAR SANTA...

Saga of courts and security

JUSTINIAN

IN RECENT times the law has become increasingly transnational. While the courts of one country are cautious about trespassing on the territory of the courts of another, cases brought to the courts in one country often inevitably have their counterpart in courts abroad. Those seeking to enforce or protect their rights may need to take parallel action in several jurisdictions.

The years 1986 and 1987 will be remembered by the legal historian for the continuing saga played out in Australia, England and Ireland, in which the judges of those countries are being asked to answer the question: Is there a special nature of confidentiality which applies to any aspect of the work of the security services, such as to place a gag on the wide and indiscriminate publication of the memoirs of a former member of the British security services? The question acquired its transnational quality when Mr Peter Wright, who had retired from the British security services in 1976 to live in Tasmania, arranged for his memoirs to be published by Heinemann in Australia.

Mr Wright had come to the conclusion that MI5 had been penetrated by foreign agents and that over the years members of the service had been guilty of breaking the law. He approached the chairman of a select committee of the House of Commons and sought an inquiry. Rebuffed by the chairman, Mr Wright decided to publish his story. The British Government has consistently taken the view that there is implicit in acceptance of an appointment with the security services a lifelong obligation, unaffected by retirement, to keep one's lips sealed. The threat of Mr Wright's book appearing in Australia and then in Britain appeared to be a breach of the duty of confidentiality. The Attorney-General, Sir Michael Havers, on behalf of the British Government, started proceedings in the courts of New South Wales to restrain Mr Wright and his publishers. For the past five weeks that action has been proceeding before the rumbustious Mr Justice Powell.

It has been a bruising experience for the British Government even if at the end of the day it triumphs. The Government's chief civil servant, Sir Robert Armstrong, has been subjected to the kind of forensic treatment normally reserved for the plausible fraudster in a criminal trial. The Judge is not expected to deliver his judgment until mid-February.

But the ultimate say may still lie with the English courts. When the Australian litigation emerged into court earlier this year, The Observer and The Guardian published articles outlining some of the allegations said to be contained in Mr Wright's memoirs. The Attorney-General rushed to the courts to stop any further publication. The Court of Appeal, in July, duly obliged. Subject to certain exceptions, relating to the reporting of proceedings in the Australian courts, the two newspapers were muzzled pending the trial of the action.

The injunctions granted to the Attorney-General were not final, only interlocutory. In accordance with normal practice in interlocutory appeals, the Court of Appeal refused to allow the case to go to the House of Lords. But, exceptionally, the Law Lords said in October that they would give leave to appeal to the two newspapers. That appeal is coming on for hearing in March. By that time the evidence may look very different, if Mr Justice Powell in Sydney has given Heinemann the go-ahead for publication. Already a judge in the Supreme Court of Ireland has refused to stop the publication of a book by another former MI5 employee. But that rather dull book contains nothing to which the British Government takes exception. And last week, Mr Justice Simon Brown, asked to injunct the publishers in England, though he declined to follow the Irish decision, showed some reluctance.

What precisely is the point of suppressing information which intrinsically does not involve national security. The publication of secret information by a former member, of the security services would, it is claimed, damage their work since the comparable security services of friendly foreign powers would lose confidence in the British service. A similar loss of confidence and lack of co-operation would also exist in other organisations. And there is always the risk that other persons employed by the security services might follow suit and publish confidential information. In short, it is vital to demonstrate to the world that the security services are leak-proof.

Judges are instinctively sympathetic to claims by a Government that it should be able to keep its secrets intact, and that the courts should help to protect those secrets. What the judges are less willing to countenance are the methods used by the security services. Clearly, undercover activities that are dubious in their legality are necessary. Bugging the room of a Minister without his knowledge, in order to uncover some subversive conduct, may be needed. But there must be limits to the illegal conduct. It would be unthinkable that any officer of the security services should engage, for example, in killing or in acts that support terrorism.

Although it is sometimes argued that the security services are above the law, that is not the view that a judge is likely to take. And it must be right that, if there are serious infractions of the law, the public is entitled to know about them. Thus the cloak of confidentiality cannot be all-embracing. Judges are, therefore, likely to scrutinise any revelations to see whether the security service has committed serious crimes. They will do so more readily in the absence of a watchdog

Because there is no democratically constituted organisation in England to supervise the security services, that may lead the courts to supply some limited form of judicial control or review. By contrast, Australia has a statutory body, the ASIO, supervising its security services. It will be fascinating to see the judicial attitudes struck in the coming months in the two jurisdictions facing like problems of confidentiatility in their respective security services.

DAF Trucks

Co-operative ventures play a key role

BY KENNETH GOODING

"WE ARE the smallest of the European heavy truck manufacturers that really count," says Aart van der Padt, chairman of the DAF Trucks management board, when you ask him to put his company into an industry perspective. In his view there are only four manufacturers which "really count"; Daimler-Benz of West Germany; the two Swedish groups Scania and Volvo—and DAF.

"We are all genuinely represented all over Europe. There are only four manufacturers who have subsidiaries in every country in Europe and who are really present there and can provide service," he points out.

It is this European-wide representation—DAF has 11 sales and service subsidiaries covering nearly every country of importance and about 550 dealers—which makes UK politicians prefer the idea of the Dutch company taking over Leyland Trucks rather than the potential rival bidder, Paccar of the US.

Paccar owns Foden in Britain but has no other European presence.

Leyland has made little headway in continental markets so far but recently concluded a distribution deal with DAF which will go some way to solving that problem. DAF will sell Leyland's light truck, the Roadrunner, and Sherpa vans produced by the Freight Rover company—also a subsidiary of the state-owned Rover Group—through its continental dealer network.

The arrangement springs from DAF's strategic decision not to develop or build trucks below 9 tonnes gross weight but to make them available to its dealer network via co-operative ventures instead. Co-operative ventures have a key role to play in DAF's future, says van der Padt. The company has actively been seeking more deals on a wide range of components such as engines, axles and transmissions to gain the advantages of economies of scale available to bigger rivals.

Apart from the arrangement with Leyland, DAF has set up another joint venture called CABTEC, with Enasa, the state-owned Spanish producer of Pegaso vehicles which also owns Seddon Atkinson in the UK. This involves the development and production of a cab for trucks over 14 tonnes gross weight.

Aart van der Padt: "Only four European manufacturers really count"

The companies will share the Fl 170m cost on a 50-50 basis although DAF had completed most of the development work before the deal was signed in 1984.

The partners will share production of cab components, and then each will finish the cabs in its own particular style.

First of the trucks with the new cabs will go on sale next year.

Van der Padt also hopes the so-called Club of Four joint venture for medium-truck cabs, shared between DAF, Volvo, Iveco, the Fiat-owned company, and Renault of France, ultimately will be extended to include a new co-operative cab. Some club members might move out at that stage, perhaps to be replaced by other companies, van der Padt suggests.

The joint ventures have not been easy to set up, partly because DAF has no intention of being submerged by any potential partner. In the past van der Padt has insisted his company must retain its own identity and engineering capability. Whether that attitude will change during the Leyland talks remains to be seen.

Many times in the past he has also said that preserving jobs in the Netherlands must play a major part in any talks about co-operative ventures, somthing the UK government must obviously bear in mind if some kind of deal with Leyland emerges.

For DAF is important both strategically—as a supplier of military vehicles—and economically to the Netherlands. Some 6,000 of its 8,700 employees are in the Netherlands and, although DAF has a healthy one-third of its domestic market for trucks over 9 tonnes gross weight, three-quarters of its output is exported.

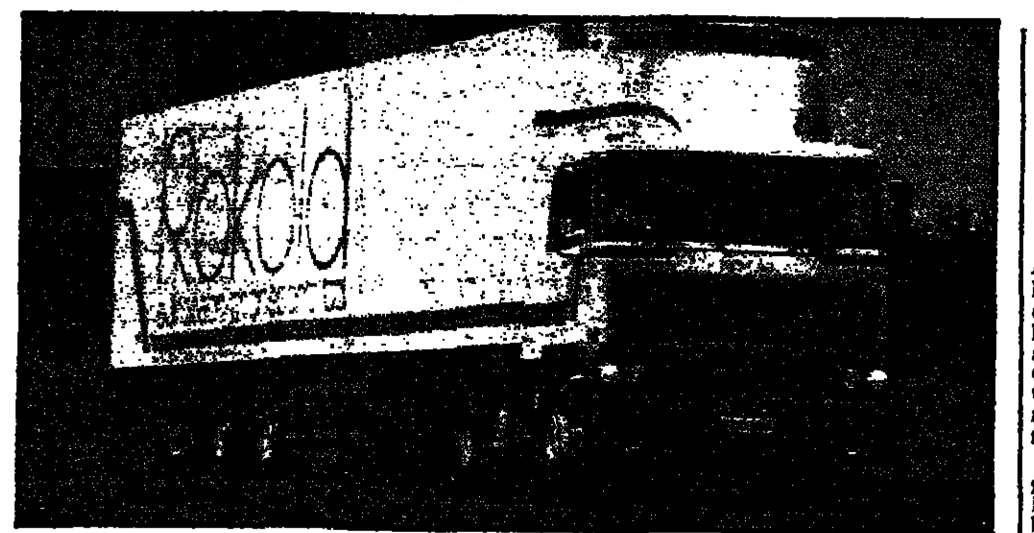
DAF was founded by the brothers Hub and Wim van Doorne in 1928 in Eindhoven in the south of the Netherlands where it is still based. The company specialised in the design and manufacture of trailers until 1950 when the first DAF trucks were produced. Today it manufactures its own major components: cabs, engines and axles, as well as assembling trucks and buses.

The brothers also built up a car business which in 1974 was sold to Volvo of Sweden, thus creating the impression among too many people that DAF Trucks is part of the Volvo group. In fact, it remains a private Dutch company.

With such a small domestic market—total heavy truck sales in the country amount to only about 10,000 a year—DAF had to export to survive. But there were some moments in the past when the company was in considerable financial danger.

During one of those periods, in the early 1970s, the family gave up some control to the Dutch State Mines (DSM) and to International Harvester of the US (recently re-named Navistar). DSM is government-owned but the DAF executives claim the Dutch Government exerts no control over the company through this holding.

DAF hoped that, apart from offering technical help, IH would also open up the way to significant sales in the States.



DAF Trucks supplies one third of the Netherlands market, while three quarters of its output is exported

But hardly any progress was made, mainly because there were serious culture clashes between the two companies and the people involved—another reason that DAF is so careful today when choosing joint-venture partners.

For two fruitless years at the beginning of the 1980s, DAF, IH and Dodge Trucks (then owned by the Peugeot group of France but since sold on to Renault) attempted to work out a way to turn themselves into a pan-European trucks grouping. IH at that time controlled Enasa in Spain and Seddon Atkinson in the UK and the Dodge factories were also in those countries.

The scheme collapsed when IH fell victim to the deep recessions in both its major markets—trucks and agricultural equipment. Under pressure from its bankers, it pulled out of truck making in Europe and sold off its 37.5 per cent shareholding in DAF.

Neither the van Doorne family, which already owned 37.5 per cent of DAF, nor DSM, which controlled 25 per cent, was willing, for their own particular reasons, to buy the stake.

But eventually, in 1983, a Dutch solution was found. A consortium was set up to acquire the IH stake in DAF. An unusual feature of that arrangement was that DAF Trucks itself is part of the consortium, with 31.66 per cent, and in effect bought its own shares, with the approval of its bankers.

The other members of the consortium are VADO (the van Doorne family trust), 12 per cent; DSM, 8 per cent; and the Netherlands Investment Bank, 48.43 per cent.

The original intention was for the consortium to find another—friendly—buyer and pass the shares on as quickly as possible. But van der Padt has said in the recent past that, as DAF is now doing so much better financially, the consortium will probably retain the stake.

DAF did not emerge totally unscathed from the deep fall in worldwide heavy truck sales in the early 1980s which set the scene for Leyland's ultimate downfall.

It suffered a loss in 1983. But last year DAF more than doubled net profit to Fl 20.4m (£6.3m) from Fl 9.7m.

Van der Padt says that profits will be higher this year. Truck and bus output will be about 11 per cent up, from 14,380 in 1985 to 16,000.

The healthier financial position has certainly helped take some pressure off the DAF management as it looks for ways to ensure survival in the 1990s.

Another important element was that two years ago van der Padt and his management team put together a Fl 600m financial package to cover a six-year product renewal programme and investment in advanced production methods.

The Dutch government is providing Fl 200m of the cash by way of a repayable loan and, in view of DAF's importance in Belgium—it has a cab plant at Westerlo where 1,400 are employed — the government there has guaranteed a BFr 2.8bn loan by Belgian banks. The balance of Fl 259m will be found from DAF's own resources.

Van der Padt says the use of flexible automated manufacturing systems which will be provided by some of the investment money enables a medium-sized truck maker like DAF to manufacture at a reasonable cost compared with larger producers.

DAF already is "100 per cent customer oriented" and can respond very quickly to customers' requests because it has very short lines of communication and flexible manufacturing equipment, he claims. The company has also won and retained customers by providing throughout Europe after-sales service from 7 am to at least 10 pm each working day and an all-year-round, 24-hours-a-day emergency service.

As for Leyland, DAF is now to send in a number of study groups which will spend some months taking stock of various possibilities. DAF is not saying much about what it has in mind except that "collaboration will only be considered if the results of the study show that it will lead to a further strengthening of the company."

From what UK Industry Secretary Paul Channon told the Commons during the brief debate on the Rover group early this month the most likely outcome, if any deal goes ahead, would be a merger of DAF and Leyland with the Rover Group perhaps retaining a substantial minority interest.

One thing seems certain. It will have to be a very attractive deal to encourage DAF to give up its independence. Van der Padt once said: "We often hear sceptical comments by people who say DAF will not be able to stay independent much longer. Apart from the fact that such comments have been handled about since 1948, I would say we are a human-sized organisation. The principal feature of this is that we are able to think and act flexibly.

"Furthermore we have our costs well under control so that we are able to stay on course in stormy periods. Companies of our size cannot afford to make any mistakes."

'Planning is more important than ever'

BY CHRISTOPHER LORENZ

AS ALL the world knows, the British are amusingly adept at coping with their climate. They know the weather is unpredictable, and never quite trust the official forecast, yet they still usually manage to plan their affairs in such a way as to avoid getting wet.

Even if there is only a marginal chance of rain, for instance, they carry the proverbial furled umbrella. And if they are organising an outdoor concert, or some other open-air event, they usually manage to provide indoor facilities (or else they take out insurance).

Business executives everywhere would do well to do the same, according to John Robinson, one of the top corporate planners at Shell. Instead of abandoning planning because of its supposed ineffectiveness in a business climate which has turned stormy, as many companies did after the end of the stable 1960s and 1970s, they should be using it to help them handle the unpredictable future.

In unpredictable times like ours, planning is even more necessary than it used to be, Robinson argues in the latest edition of Long Range Planning, the journal of Britain's Society of Strategic Planning*. But it needs to be done differently.

One of the problems with planning in the past, says Robinson in an article called "Paradoxes in Planning," was that it rested on the notion that forecasts were reliable. Today "the paradox is that if we pretend the future is predictable, the consequences may be unmanageable, whereas if we realise that it is unpredictable we can usually manage to cope with them."

One of the most common umbrella-carrying practices in the business world, says Robinson, is currency hedging. Less well-known are planning techniques such as multiple scenarios and risk-reward matrices, both of which shift attention away from futile and dangerous prediction, and instead rely heavily on creating widespread understanding within a company about the complexity and uncertainty of future developments and trends.

Most important of all, perhaps, as Robinson puts it, is that these techniques help "put decision-making back where it belongs" — with line management, rather than just with a small coterie of top managers and their staff planners.

The shift from centralised planning and decision-taking to decentralised strategic management is the central theme of another article in the journal, on "Corporate Planning for the 1990s: The new frontiers."

Since 1980 a new breed of strong general managers has taken over responsibility for planning within their own divisions and business units, reports Taylor, who is professor of business policy at Henley—The Management College. Planning procedures have been simplified, "with a new emphasis on quality of thinking rather than reams of figures."

Central planning groups are now smaller, says Taylor, and many planners have either retired or moved into consulting. Of those who have remained with their companies, "many are now working as line managers in divisions, or in corporate project teams concerned with rationalisation, acquisitions, or new ventures."

Integrated

For the late 1980s and 1990s, the most important new frontier for planning will be implementation, according to Taylor. "To achieve superior competitive performance requires an integrated approach to the business—not just to produce strategies and plans [as in much of the 1960s and 1970s] but to develop an organisational capability to carry them out."

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The 20th Anniversary national conference of the Strategic Planning Society will be held in London on January 22, on the theme of "Strategic Issues for the 1990s—New Frontiers?" Speakers include Professor Bryan Carsberg, director-general of OFTEL, and Siegfried Höhn, director of strategy and investments at Volkswagen. Details from the Society at 15 Belgrave Square, London SW1X 8PU. (Tel: 01-235 0246).

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The serial numbers of the Notes drawn for redemption are as follows:—

24	1333	2417	3671	4962	6062	7397	8479	9522	10748	11912	12916	14209	15506	16810	18144	19147
44	1335	2418	3679	4989	6097	7398	8488	9525	10774	11918	12974	14268	15551	16850	18155	19180
49	1367	2474	3729	5042	6100	7425	8527	9529	10784	12005	13003	14275	15554	16890	18162	19205
50	1398	2507	3735	5052	6108	7445	8536	9552	10798	12016	13036	14295	15558	16921	18185	19226
68	1405	2626	3740	5055	6218	7530	8537	9614	10851	12018	13053	14304	15572	16927	18195	19237
90	1415	2654	3746	5070	6306	7539	8557	9646	10862	12024	13069	14306	15581	16962	18220	19295
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215	1450	2737	3889	5143	6334	7561	8620	9656	10950	12072	13130	14341	15603	17040	18249	19369
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251	1543	2882	4033	5161	6456	7703	8674	9731	10973	12172	13204	14429	15714	17048	18318	19417
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1064	2299	3597	4856	5924	7318	8402	9395	10614	11823	12841	13902	15395	16747	17957	19055	
1096	2329	3655	4892	5925	7332	8416	9409	10639	11831	12852	14076	15397	16762	17970	19062	
1136	2347	3656	4896	5936	7336	8425	9421	10643	11857	12862	14087	15410	16781	18015	19086	
1180	2377	3660	4907	6002	7344	8446	9452	10696	11878	12889	14105	15447	16782	18105	19096	
1191	2378	3662	4923	6054	7377	8447	9471	10714	11889	12898	14146	15454	16786	18108	19110	
1228	2411	3663	4926	6070	7382	8470	9521	10730	11910	12899	14168	15501	16805	18131	19143	

On the 2nd February, 1987, the said redemption price will become due and payable on each Note to be redeemed, together with accrued interest from 30th January, 1987 to 2nd February, 1987 amounting to US$ 3.58 per US$ 5,000 Note. On and after that date, interest on the said drawn Notes will cease to accrue.

Payment of the Notes to be redeemed will be made on and after 2nd February, 1987 upon presentation and surrender of the said Notes, with all coupons appertaining thereto, at any of the following Banks:—

Bankers Trust Company
Dashwood House
69 Old Broad Street
London EC2P 2EE

Banque Indosuez Luxembourg
39 Allée Scheffer
Luxembourg

Swiss Bank Corporation
Aeschenvorstadt 1
CH- 4002 Basle
Switzerland

Bankers Trust Company, London.
22nd December, 1986

Agent Bank

UK NEWS

British Coal urges miners to work four-day week

BY CHARLES LEADBEATER

BRITISH COAL wants thousands of miners to switch to a four-day working week and longer daily shifts to help it achieve more intensive working of coal faces and more efficient use of costly new mining equipment.

The target is 24-hour mining at key pits for six days a week. Most mines are at present worked for five days.

Sir Robert Haslam, chairman of British Coal, told the Financial Times that these changes were vital to ensure pits made full use of the expensive heavy-duty coal-cutting machinery which the state-owned utility plans to buy.

He said British Coal would need an understanding with the National Union of Mineworkers (NUM) that the mine it plans to develop at Margam in South Wales would be worked six days a week before the project could definitely go ahead.

Sir Robert stressed the changes would be introduced only through agreement with the unions. Though there had not yet been any full discussions with the unions on the proposal, the issue is likely to surface in forthcoming wage negotiations with the NUM. British Coal is likely to raise the idea should the union submit a claim for a shorter working week.

However, Sir Robert said negotiations were most likely to be conducted on a local basis.

"We recognise there are social, practical and cultural objections to the idea. Initially some will fight it, but many will see the benefits of the move. We will seek to introduce this change gradually and only where it is most needed. Many miners will not be affected."

British Coal hopes miners will be attracted to the idea because it reduces the number of working days a year from 225 to 178.

The four-days-on/three-days-off shift pattern is currently under discussion in the North Eastern coalfield where miners spend about a third of each 7½-hour shift travelling over 20 kilometres underground. Under the proposed pattern of four 9-hour shifts, the amount of travelling time per descent would be cut to 27 per cent.

The changes would require legislation to amend the Coal Mines Regulations Act of 1908, which limits the number of hours miners can spend underground.

Pay deals 'at lowest level for 10 years'

By Philip Stephens

PAY DEALS in manufacturing companies may be running at their lowest level for 10 years, boosting prospects of lower, industrial costs, according to the Confederation of British Industry (CBI).

The employers' organisation says preliminary returns to its pay data bank indicate that settlements over the last three months have averaged 4.6 per cent. That compares with an average of 5.6 per cent in the third quarter and 6.1 per cent in the first half of the year.

The latest figure covers only 80 settlements across different industries in various regions, but the CBI said it was not likely to be greatly revised.

Signs of a fall in settlement levels, however, have not yet begun to slow the pace of average earnings growth. The latest official figures show that the annual rate of growth in earnings remains at 7½ per cent. That reflects productivity, overtime and other bonus payments as well as basic pay levels set in annual deals.

Industry's fuel and raw materials prices have also started to rise again, reflecting higher oil prices and some recovery in international commodity markets.

Both the CBI and the Government hope that over coming months the lower settlement levels will be translated into slower growth in earnings and in unit costs, which have been rising faster than those of Britain's competitors.

Commenting on the data, Sir Terence Beckett, director general of the CBI, said: "While average earnings are continuing to run at rather high levels, reflecting in part the pick-up in the economy, these much lower figures for basic pay settlements do suggest that at last we may be moving in the right direction."

This year's sharp decline in the value of sterling has restored much of the competitiveness lost by British industry over the past few years. That recovery, however, would quickly be eroded if present cost trends in the major economies continue.

'Dirty tricks' inquiry likely to be refused

BY PETER RIDDELL, POLITICAL EDITOR

THE Government is likely to turn down calls for an immediate inquiry into fresh allegations of plotting and dirty tricks by some MI5 (internal security) officers against members of the 1974–79 Labour government.

Mrs Margaret Thatcher, Prime Minister, has made it clear that she will not comment or deal with such allegations until after the end of the current Australian court case in which the Government is trying to prevent Mr Peter Wright, a former MI5 officer, from publishing his memoirs. These apparently contain claims about how some MI5 officers acted against members of the Wilson government.

Judgment in the case is not expected until February, and there would then be an appeal, and only then would there be a House of Commons statement.

The indications from government officials in London yesterday were that there was no whiff of an inquiry around. However, senior Labour figures, including ex-ministers, have pressed for an investigation following weekend claims by Lord Glenamara (former party deputy leader Mr Ted Short) that MI5 may have forged documents to discredit him.

In particular, before the October 1974 general election, several Fleet Street papers received photocopies of a document purporting to show that Mr Short had opened an illegal Swiss bank account. A police inquiry at the time established that the documents were forgeries, and Lord Glenamara now says his belief in an MI5 plot has been strengthened by the Australian case.

In a further twist to the spies saga, Mr Winston Churchill, the Conservative MP, and Sir Stephen Hastings, who retired from the Commons in 1983, firmly denied having been involved in any plot against the Wilson government in the 1970s.

This followed the disclosure over the weekend that they were the two unnamed MPs mentioned in a Commons debate last Monday. This was in relation to the unwitting involvement of MPs in attempts by some MI5 officers to discredit Lord Wilson and his associates.

Although these further claims will increase the pressure for an investigation, ministers believe that the whole matter is having little impact outside Westminster

Security alert after wave of Ulster bombs

By Our Belfast Correspondent

THE Royal Ulster Constabulary yesterday renewed its pre-Christmas security alert to the public after an IRA bomb blitz on hotels and public houses.

One hotel was completely destroyed, another badly damaged and a public house badly damaged in a synchronised hour-long bombing raid in County Tyrone.

No one was injured, but the RUC said hundreds of lives had been at risk. Damage is estimated to exceed £1m, and up to 50 jobs may have been lost.

The IRA struck first at the Glenavon Hotel, Cookstown. An armed gang drove a car carrying explosives through glass doors into the hotel's function room. Bombs were left in other parts of the hotel.

The police said they evacuated 70 families in the surrounding area before the bomb exploded, setting fire to the building.

The Kildress Inn, a public house in Cookstown, received similar treatment. Two bombs exploded, wrecking much of the building, and army bomb experts were yesterday checking for unexploded devices.

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NEW ISSUE - This announcement appears as a matter of record only - December, 1986

UK NEWS

Unlisted market share turnover up significantly

BY ALICE RAWSTHORN

THE turnover of shares on the Unlisted Securities Market has, contrary to expectations, risen significantly since the Big Bang deregulation of the City of London on October 27.

In the approach to the Big Bang there was concern that in the new, more competitive City securities houses would concentrate on the larger, more profitable transactions generated by the shares of bigger companies to the detriment of the small companies quoted on the USM.

Yet since deregulation the average value of daily business on the USM has risen by 35 per cent. In the first 10 months of the year, until the Big Bang, an average £10.5m of shares were transacted on the USM each day, according to the London Stock Exchange's statistics. In the seven weeks after the Big Bang, until the beginning of last week, the value of the average day's business has risen to £14.2m. These figures do not include transactions between principals, from market-maker to market-maker for example.

If the month of October is excluded from the pre-Big Bang figure – an unusually high amount of business was carried out in this month as market-makers built up their stocks in preparation for deregulation – then the rate of increase after the Big Bang is even higher at 40 per cent.

The turnover of shares on the main stock market has risen faster than on the USM. Before the Big Bang an average of £648.6m of shares were dealt each day in 1986 on both the main market and USM; since the Big Bang that figure has risen to around £1bn a day, representing an increase of 54 per cent.

As Mr Geoffrey Douglas, head of USM research at the stockbroker, Hoare Govett, said: "It can come as no surprise that turnover on the USM has not increased as quickly as on the main market. None the less the rate of growth in business on the USM has been very encouraging, as has the emergence of so many new USM market-makers."

Most of the major corporate sponsors for the USM – such as the stockbrokers Capel Cure Myers, Alexander Laing & Cruickshank and Phillips & Drew – have set up market-making operations for the junior market.

The USM experienced the busiest week in its history just before the Big Bang.

Aberdeen yard fears loss of Indian order

BY MAURICE SAMUELSON

HALL RUSSELL, the Aberdeen warship yard which was privatised last March, says it is in danger of losing an export order to India worth some £150m unless it receives an immediate pledge of government financial assistance to meet foreign competition.

The proposed deal, which would safeguard some 500 Aberdeen shipbuilding jobs, is for the supply of up to eight offshore protection and communications vessels for the Indian Petroleum Ministry.

The company issued the warning at the weekend following a visit to New Delhi by a sales team led by Mr Ian Philip, chairman of its parent company, Aberdeen Shipbuilders, and by Mr Alastair Lambie, Hall Russell's managing director.

It claimed the Indians had expressed a preference for its designs but had given it "until just after Christmas" to secure the British Government backing which would let it compete with Korean and Singapore shipbuilders, whose prices had recently been reduced thanks to "massive" grants.

Mr Philip said that in order to win the order, the British Government would have to put up only about £3m a year for the next three years.

However, he said that although the company had applied for help through the Overseas Development Administration, and had been promised an early decision, "there seems to be a log-jam."

The Indians had now given it until just after Christmas to come up with a price backed by the Government. Otherwise, the order would go elsewhere and the development of a whole class of ships with a future marketplace worth more than £1.5bn would come to an end.

It was confirmed in Whitehall last night that the appeal was being considered jointly by the ODA, the Department of Trade and Industry and the Foreign Office.

A DTI official said no decision had yet been reached but that account would be taken of the deadline imposed by the Indians. However, the process has been delayed by the failure of the Indian Government to request the financial help in writing, even though senior Indian civil servants are said to have verbally requested it at the British High Commission in New Delhi.

The most appropriate form of help by the Government would be as an Aid and Trade Provision (ATP). This form of assistance is made directly to the purchasing country, rather than as a subsidy to the shipyard, which might fall foul of EEC restrictions on aid to the shipbuilding industry.

An ATP can cover up to 25 per cent of the UK content of an order by a foreign government for non-military equipment. Hall Russell claims that since the patrol vessels are required for the Indian oil industry, they need not be classed as military equipment.

American thanks Irish with animated mice

BY RAYMOND SNODDY

BY MOST standards 70-year-old Mr Morris Sullivan has had a successful life. Not only has he made a great deal of money from his Los Angeles corporate and financial consultancy, M. F. Sullivan, but he has also raised 18 children.

But as he entered semi-retirement, two ideas became increasingly dominant in Mr Sullivan's mind – a realisation that he had achieved little that would be passed on to future generations and a desire to do something for Ireland in recognition of the contribution to the US of the waves of Irish immigrants, who included his grandparents.

Mr Sullivan has now found a way to combine both ideas. His film animation company, Sullivan Studios, is moving its entire production team to Ireland from California and plans to increase the payroll to 380 by the end of 1987. Most of the new jobs will go to Irish art college graduates.

Ireland's first film animation studios will be housed in a six storey building overlooking Dublin's Phoenix Park, with the help of grants from the Irish Development Authority.

"We hope to make Ireland the home of the world's finest quality animation," says Mr Sullivan, who until recently had been no closer to the film industry than playing golf with Bob Hope at the Hollywood Lakeside Golf Club.

He got into the film business when he decided to finance a breakaway group of animators from the Disney studios who had run into trouble on the funding of a feature-length animated film, The Secret of Nimh.

The film went on to win the best animated film of the year award in the US.

The latest film from Sullivan Studios, the $9m American Tail produced by Stephen Spielberg for Universal Studios, has taken more than $20m at the box office since it opened on November 21. It is a story about mice: American immigrant mice – including, naturally, lots of Irish mice.

All the individual frames – and there can be one million of them in a 70-minute animated film – were painted in Ireland in a small studio in Dublin opened by Sullivan in 1985.

The world market for animated films is believed to be growing at between 20 to 30 per cent a year and is worth about £200m a year in the US alone. Because it is so labour-intensive it has been moving out of Hollywood to the Far East and countries such as Japan and South Korea.

Sullivan Studios, about to be renamed Sullivan-Bluth Studios, chose Ireland for its new headquarters because it wanted to work in the English language, Ireland's artistic tradition and the quality of art college education there.

APPOINTMENTS

Scottish TSB chief

Mr Eric Wilson

TSB SCOTLAND has appointed Mr Eric Wilson to succeed Mr Ian H. Macdonald as chief general manager when he retires on March 31. Mr Wilson will also become a director of TSB Group. Mr Wilson joined the Trustee Savings Bank Scotland as a general manager on March 1 1984 having previously held senior management appointments with Barclays Bank. He was appointed a trustee and senior general manager in 1985 and ultimately a director and senior general manager of TSB Scotland on its incorporation last July.

★

GUINNESS BEVERAGE GROUP has appointed Mr John McKechie as finance director of Scotch whisky production. Mr McKechie, who was comptroller of group accounting for The Distillers Company, will be based in Edinburgh. Appointments made by the blending and bottling division are Mr Douglas Tasker to financial controller, Mr Tom Burnett to management accountant, Mr Ron Ramage to purchasing and Mr Bob Rigby to planning manager.

★

Dr Peter G. H. Troughton has recently been appointed marketing director of NUCLEAR ENTERPRISES. He was a director at Hilger Analytical. Nuclear Enterprises, part of the sensors and security division of Thorn EMI.

Cadbury Schweppes group finance director

CADBURY SCHWEPPES has appointed Mr David Nash group finance director in succession to Mr H. R. Collum, from the beginning of March. Since 1984 Mr Nash has reported to the ICI main board for all acquisitions, mergers and divestments in the ICI Group. He has been a director of a number of ICI companies and joint ventures in the UK and abroad.

★

Mr P. W. Donovan and Mr A. D. Milne, both directors of the principal operating division, have been appointed executive directors of the THE BSS GROUP from January 1. Mr Basil Cole, currently finance director, will be retiring on January 24.

★

NFC DISTRIBUTION GROUP has made two board appointments. Mr J. R. (Jim) Gardiner becomes director of personnel. Mr John Davies is appointed managing director for Alpine Refrigerated Deliveries, a frozen food distributor recently acquired by the NFC.

★

Mr Frank Jones has been appointed senior general manager, personnel division, at LLOYDS BANK in succession to the late Mr Gerald Clarke. He was chief executive of Lloyds Bank California which was sold in August to Sanwa Bank California.

★

Mr Andrew Marsh has been appointed as business development director at THORN EMI BUSINESS COMMUNICATIONS. This follows Mr Keith Shepherd's posting as managing director. Mr Marsh was new business development manager.

★

JOHN MOWLEM & Co has appointed Mr Geoffrey Bayles to the board from January 1.

★

MORGAN GRENFELL & CO has appointed the following to the board from January 1: Mr M. C. Evans, Mr J. C. Smith and Mr P. E. Smith.

★

MEDISURE MARKETING AND MANAGEMENT has appointed Dr Michael Goldsmith as director medical services.

★

JOHN LAING CONSTRUCTION UK civil engineering division has appointed Mr John A. Armitt and Mr Michael H. Tredwell as joint managing directors. From January 5 Mr John Vyse becomes general manager and Mr Martin Corrigan northern area manager.

★

Mr Gordon Williams, managing director of Field Aviation has been elected president of the ENGINEERING EMPLOYERS LONDON ASSOCIATION.

★

Mr Derek Rogers has been appointed to the newly-created post of general agency manager of CANNON LINCOLN GROUP. He joins from Crown Life.

★

Mr David Garth, formerly with British Aerospace, has joined THE CORPORATE CONSULTING GROUP.

★

SAMUEL MONTAGU & CO has appointed Mr Richard Gillingham, Mr John Neary, Mr Jeremy Prescott, Mr Tom Quinn, Mr John Rickards, Mr Mossman Roueche, Mr Jeffrey Urwin and Mr Arthur Wadsworth as executive directors from January 1 1987.

★

STONE INTERNATIONAL has appointed Mr Patrick Fordham to the main board from January 5. He will assume responsibility for the worldwide transportation division. He will be joining from the international engineering and management consultancy which he set up in 1980 after 17 years with Hawker Siddeley Group.

★

Mr Malcolm Thomson has been promoted to managing director at REGENCY FILM SERVICES. He takes over from Mr Richard Cross who remains chairman.

★

Mr Andrew S. Noble joins the board of BENTALLS as a non-executive director from February 1. He was a main board director of Debenhams and was the managing director of store operations and services. He is chairman of Specialeyes. Mr Denis Greensmith retires from the Bentalls board at the end of January.

★

Mr Peter Laister has been appointed chairman and non-executive director of the CONTEC GROUP. Mr Stuart Hallam, joint founder of Contec, with Mr Ted Venables, will assume the role of deputy chairman and chief executive. Mr Venables will continue as managing director and will also become a deputy chairman. Mr Laister is a director of several companies, including Mirror Group Newspapers, The British Printing and Communications Corporation, Fluor (GB) and Inchcape. He is a former chairman of Thorn EMI.

★

Mr Roy Mocher has been appointed group finance/administration manager at MELTON MEDES, Nottingham.

★

Mr P. W. Donovan and Mr A. D. Milne, both directors of the principal operating division, have been appointed directors of THE BSS GROUP from January 1. Mr Basil Cole, finance director, will be retiring on January 24.

★

APRICOT COMPUTERS has made two appointments to the main board from January 1. Mr Peter Horne, director responsible for research and development, and Mr Mike Winn, who heads the national accounts group, which includes government and major corporate accounts, are joining the board. Mr Julian Allason, a non-executive member of the main board, has resigned because of his increasing commitments outside Apricot.

★

At McKAY SECURITIES Mr G. F. McKay, chairman, and Mr J. C. Hawkes have retired from the board. Mr I. A. McKay (deputy chairman) has been appointed chairman and Mr E. S. G. Lloyd deputy chairman in addition to remaining as managing director. Mr D. A. L. Bird and Mr M. J. C. Hawkes have been appointed non-executive directors.

★

Mr David Parish has been appointed to the board of CHARTERHOUSE as director of planning. Charterhouse is wholly-owned by The Royal Bank of Scotland Group.

★

Mr Silvan Robinson has been appointed a non-executive director of GUINNESS PEAT GROUP. He is president of Shell International Trading Co.

★

Mr David Buck has been appointed marketing director of NATIONAL CARRIERS CONTRACT SERVICES—one of the employee-owned National Freight Consortium's companies. He was contract manager with the BRS Group.

★

Mr Michael Charny, managing director of FRENCH DAIRY FARMER, will retire on February 28. His place will be taken by Mr Philip Emerton, who will take up his duties on January 1. Mr Emerton joined from Amalgamated Foods on May 1.

★

In order to facilitate the planning and implementation of a restructuring, CSR is to appoint Mr Ian Burgess as chief executive officer (elect) to succeed Mr Bryan Kelman, the present chief executive officer, when he reaches normal retiring age in December 1987. Mr Burgess is executive director, sugar. He is a past general manager of personnel and the building materials division.

★

Mr Stewart D. Gager, chief lending officer for the MIDLAND BANK GROUP'S North American operations, has been appointed group risk management director from January 1. He succeeds Mr Brian L. Goldthorpe, whose appointment as chief executive, corporate banking, was announced earlier this year.

★

At CEMENT - ROADSTONE HOLDINGS (CRH) Mr Jim Culliton will be relinquishing the position of chief executive on January 1. He will remain a member of the board. Mr Tony Barry has become deputy chief executive. Mr Barry a CRH director since 1978, is chief operating officer (Europe) with overall responsibility for CRH interests in Ireland, the UK and Europe.

★

RANGER OIL (UK) has appointed Mr A. A. Wilson its financial director. He remains managing director of Berkeley Exploration and Production, a subsidiary of Ranger Oil (UK). Mr G. H. Bowman, Mr A. J. Dingley and Mr A. W. Hart have been appointed directors of Berkeley Exploration and Production. Lord Williams of Elvel, Mr L. E. Forsey, Mr J. G. Hannam, Mr T. A. T. Ledhi and Viscount Torrington have resigned as directors.

Restructure at Sulzer

The SULZER GROUP has restructured and made the following appointments from January 1. Mr Peter Strangeway will be chairman of Sulzer (UK) Holdings, managing director of Sulzer (UK) and a director of Sulzer (UK Pumps and Sulzer (UK) Building Services. Mr William Walton will be managing director of Sulzer (UK) Pumps and a director of Sulzer (UK) Holdings. Mr George Balshaw will be managing director of Sulzer (UK) Building Services and a director of Sulzer (UK) Holdings. Mr Otto Pelezer will be finance director and secretary of Sulzer (UK) Holdings and Sulzer (UK). Dr Victor Beglinger (Swiss, head of the heating and ventilating division) will be a director of Sulzer (UK) Holdings and Sulzer (UK) Building Services. Mr Juerg Heyer (Swiss, head of the pump division) will be elected a director of Sulzer (UK) Holdings and Sulzer (UK) Pumps. Mr Aloys Osterwalder (Swiss, head of Sulzer International's Europe/North America region) will become a director of Sulzer (UK) Holdings. Mr Martyn Thomas will be deputy managing director of Sulzer (UK) Pumps. Mr Peter Mackenzie, Mr Leonard Smith and Mr David Stables will be *directors of Sulzer (UK)*. Mr Dennis Clark, Mr James Fretwel and Mr Kurt Matt will be directors of Sulzer (UK) Building Services.

★

At BURSTON-MARSTELLER/UK Mr Martin Langford is promoted to deputy managing director resources, and Mr Peter Rae becomes deputy managing director, client services, Dr Emyr Williams has been elected a director, as have group managers Ms Tessa Hopkins, Mr Robin Gallon, Mr Joe Gibbs, and Mr Andrew Litchfield. Mr Peter Jones, general manager of Burson-Marsteller's Belfast office, has also been elected to the board.

★

LEEDS AND HOLBECK BUILDING SOCIETY has increased its senior management team: Mr S. R. Levy is promoted from chief accountant to general manager—finance. Mr P. R. Evans is appointed an assistant general manager. He joins Leeds and Holbeck from Leeds Permanent Building Society. Mr D. Pickersgill, who is also appointed as an assistant general manager, was previously employed by Coopers and Lybrand.

UK NEWS

Nick Garnett reports on the search for collaboration in construction machinery

Joint deals essential as margins tighten

THE ANNOUNCEMENT last week by Aveling Barford, the construction equipment manufacturer based at Grantham in the east Midlands, that it was shedding a fifth of its labour force reflected the mercilessly tight margins in the construction machinery industry.

A number of other manufacturers have also been reducing their cost bases by cutting jobs or making better use of factory space.

But the industry in the UK has also witnessed a flurry of companies changing hands and some new producers entering the field which are likely to have a significant impact on the overall shape of the industry.

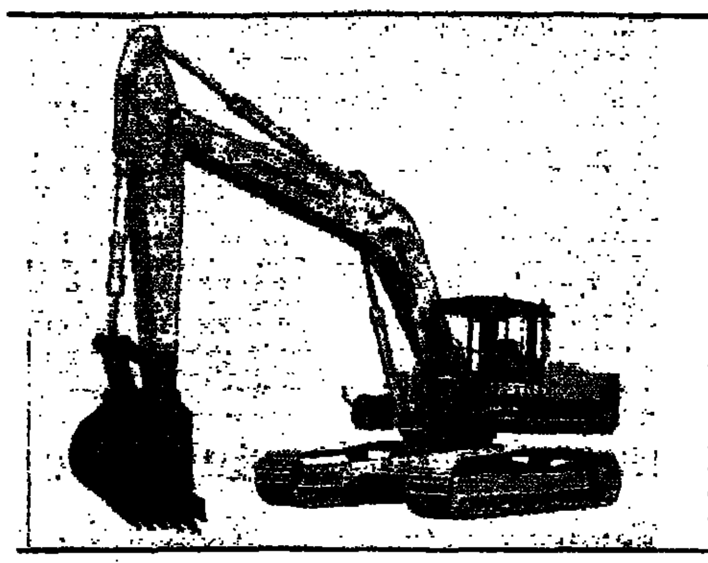
On the face of it the changes look unconnected. BM group, an independent offshoot of the Beazer construction company which still holds a 25 per cent stake in BM, has aggressively expanded its mini-empire separate construction machinery-making businesses.

This year it purchased for £20m Benford which makes small site dumpers, mixers, access and vibrating equipment. It then snapped up cheaply the three construction equipment companies of Northern Engineering Industries which NEI was unloading as part of its last round of restructuring.

That gave BM, which is now a £70m-a-year turnover business, the Hymac hydraulic excavator operation, Haulamatic dump trucks and Ritemixer which manufacturers lorry-mounted mixing equipment.

Production of articulated and rigid dump trucks, scrapers and other equipment produced at Terex in Ohio is being transferred to Terex Equipment in Scotland by Nothwest Engineering, a small US equipment maker which purchased both Terex businesses in October.

The Brown group, based in North Yorkshire, signed a deal with Komatsu of Japan in which Komatsu will purchase Moxy articulated dump trucks which Brown manufactures in Norway, rebadging them Komatsu.



KOMATSU, the Japanese construction equipment maker, has completed the first 10 hydraulic excavators (left) at its new plant at Birtley near Newcastle upon Tyne from knock-down kits supplied from Japan.

The machines, which the company says have a 20 per cent EEC content, are being sold in the UK through Marubeni-Komatsu, the distributors for Birtley's output.

The first hydraulic excavators with 60 per cent EEC content are also now on the production line at Birtley, a project which has drawn vociferous opposition from the Federation of Manufacturers of Construction Equipment and Cranes largely because of the cash assistance Komatsu is receiving.

The company confirmed yesterday its target of producing a total of 200 excavators and wheeled loaders a month by the end of next year.

Initial production is being concentrated on the excavator. The machines made from the kits have been the 118hp PC200 but this will be superceded by the upgraded PC210. Komatsu intends to make about six excavator models ranging from 12 to 30 tonnes.

Production of the medium-weight wheel loaders will not begin until the spring. Initial output will also be based on kits from Japan.

The Birtley site now employs 80 but this will eventually rise to 270 by the end of next year.

Komatsu itself has just begun production of hydraulic excavators at Birtley near Newcastle-upon-Tyne in a factory vacated by its great US rival, Caterpillar.

Caterpillar has been steadily increasing output of backhoe loaders from its plant at Leicester which only came tentatively on stream last year.

All these decisions have been taken independently and for different reasons. In the case of BN, for example Mr Roger Shutz, the company's chief executive, is putting together a mini-holding company and is still seeking acquisitions in niche markets both in and outside the construction equipment-field.

But some of the other decisions have been influenced by three features of the international construction equipment industry.

These are the imposition of anti-dumping duties by the EEC on some Japanese equipment, the need by companies everywhere to form joint partnerships to stay alive and the falling by the wayside of companies that are not fully committed to construction equipment manufacturing.

The purchase of the two Terex businesses by Northwest Engineering of Wisconsin represented the final withdrawal of General Motors from the construction equipment market. GM had originally owned the two Terex businesses, subsequently sold them to IBH, then a growing West German machinery company and eventually repurchased the Scottish operation when IBH went bust in 1984. Hymac and Haulamatic, also both once part of the IBH group, were purchased by NEI only a few years ago. Their sale this year to GM effectively takes NEI out of the market in construction equipment that rolls or crawls, although NEI has other materials handling businesses, principally making cranes.

"There is not enough fat in the industry to allow indifferent, disinterested parents when their offspring are in trouble," says Mr David Phillips of the London-based Corporate Intelligence Group, which specialises in construction equipment.

"Unless a parent company is wholly committed to that subsidiary, the subsidiary will probably go out of business in the next two years."

Even where companies are committed to construction equipment, they are having to seek collaborative deals and other forms of joint venture.

The deal between Brown and Komatsu gives the Japanese company an articulated dump truck which it does not have in its range and which has become increasingly popular at the expense of the rigid dumper.

At the same time the agreement gives Brown access to Komatsu's worldwide distribution network by allowing it to sell the Moxy dumper as a Komatsu vehicle while still continuing to sell the Moxy range under the Moxy name.

This search for collaborative deals has been even more marked outside the UK. This year Caterpillar and Mitsubishi merged their ranges of hydraulic excavators, giving the Japanese company access to Cat's dealer network and allowing Cat to widen its product range.

Last month Fiatallis, the Fiat group's construction machinery offshoot, formed a joint venture company with Hitachi to make excavators. Again the Japanese company gets a dealer network it sorely needs and the Italian company new products to bolster its ageing model range.

In the case of Hitachi in Italy and Komatsu's Birtley plant in the UK, one of the overriding factors has been the imposition of anti-dumping duties by the EEC of up to 30 per cent on Japanese excavators.

This, and the impact of the yen's value, have encouraged Japanese makers to seek manufacturing arrangements in Europe.

What seems certain is that construction equipment makers will continue to seek partnerships. "Companies cannot survive on their own," says Mr Phillips. "They need someone else's products or their distribution network to be internationally competitive."

To the Holders of:

DIGICON FINANCE N.V.

8½ % Guaranteed Convertible Subordinated Debentures due 1995

J. Henry Schroder Bank & Trust Company, as Indenture Trustee (the "Trustee") for the holders of Digicon Finance N.V. (the "Company") 8½ % Guaranteed Convertible Subordinated Debentures due 1995 (collectively the "Debentureholders and/or The Debentures") is publishing this Notice of Default pursuant to Section 516 of the Indenture dated as of October 1, 1980.

The Company has failed to make a payment of interest on the Debentures due October 1, 1986. Under Section 501(1) of the Indenture, this default has become an "Event of Default", as defined in the Indenture, by virtue of it having continued for thirty days from the date the payment was due.

Section 601(b) of the Indenture provides in part:

"In case an Event of Default known to a Responsible Officer of the Trustee has occurred and is continuing, the Trustee shall exercise such of the rights and powers vested in it by this Indenture, and use the same degree of care and skill in their exercise, as a prudent man would exercise or use under the circumstances in the conduct of his own affairs."

Section 512 of the Indenture provides:

"The Holders of a majority in principal amount of the Outstanding Debentures shall have the right to direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or exercising any trust or power conferred on the Trustee, provided that:

(1) such direction shall not be in conflict with any rule of law or with this Indenture,

(2) the Trustee may take any other action deemed proper by the Trustee which is not inconsistent with such direction, and

(3) subject to the provisions of Section 601, the Trustee shall have the right to decline to follow any such action if the Trustee in good faith by its board of directors or executive committee or a trust committee of directors or trustees and/or Responsible Officers shall determine the actions or proceedings so directed would involve the Trustee in personal liability."

Section 602(d) of the Indenture provides:

"The Trustee shall not be liable for any action taken by it in good faith and believed by it to be authorized or within the discretion or rights or powers conferred upon it by this Indenture."

The Trustee is continuing to review the information available to it concerning the Company's current circumstances so that it may determine whether it will, pursuant to Section 502 of the Indenture, declare the principal of all the Debentures to be due and payable immediately. The Trustee may consider other possible action pursuant to the provisions of the Indenture.

The Debentureholders are referred to the Indenture, copies of which are available for examination at the corporate trust office of the Trustee during normal business hours, for a more complete description of the rights of Debentureholders and their remedies subsequent to the occurrence of an Event of Default. For additional financial and other information about the Company, Debentureholders are further referred to information on public record at the Securities and Exchange Commission, 500 North Capital Street, Washington, D.C. 20549.

This Notice is published pursuant to Section 516 of the Indenture.

Inquiries concerning this Notice should be directed to George R. Sievers, Senior Vice President or Mark F. McLaughlin, Assistant Vice President, J. Henry Schroder Bank & Trust Company, One State Street, New York, New York 10015, (212) 269-6500, or Joseph Chervin, Esq., c/o Rosenman Colin Freund Lewis & Cohen, 575 Madison Avenue, New York, New York 10022, (212) 940-8800, counsel for the Trustee.

J. HENRY SCHRODER BANK & TRUST COMPANY,
As Indenture Trustee

Dated: December 22, 1986

To the Holders of:

CRUTCHER FINANCE N.V.

8¾ % Guaranteed Convertible Subordinated Debentures due 1995

J. Henry Schroder Bank & Trust Company, as Successor Indenture Trustee (the "Trustee") for the holders of Crutcher Finance N.V. (the "Company") 8¾ % Guaranteed Convertible Subordinated Debentures due 1995 (collectively the "Debentureholders and/or The Debentures") is publishing this Notice of Default pursuant to Section 516 of the Indenture dated as of December 15, 1980.

On October 30, 1986, the Company filed a petition for reorganization under Chapter 11 of the Bankruptcy Code in the United States Bankruptcy Court for the Northern District of Texas. Under Section 501(6) of the Indenture, that act is an "Event of Default", as defined in the Indenture.

Section 601(b) of the Indenture provides:

"In case an Event of Default has occurred and is continuing, the Trustee shall exercise such of the rights and powers vested in it by this Indenture, and use the same degree of care and skill in their exercise, as a prudent man would exercise or use under the circumstances in the conduct of his own affairs."

Section 512 of the Indenture provides:

"The Holders of a majority in principal amount of the Outstanding Debentures shall have the right to direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or exercising any trust or power conferred on the Trustee, provided that:

(1) such direction shall not be in conflict with any rule of law or with this Indenture, and

(2) the Trustee may take any other action deemed proper by the Trustee which is not inconsistent with such direction."

Section 601(c)(3) of the Indenture provides:

"The Trustee shall not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of the Holders of a majority in principal amount of the Outstanding Debentures relating to the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee, under this Indenture."

The Trustee is continuing to review the information available to it concerning the Company's current circumstances, and will be monitoring and participating in the bankruptcy proceedings in order to protect the interests of the Debentureholders.

The Debentureholders are referred to the Indenture, copies of which are available for examination at the corporate trust office of the Trustee during normal business hours, for a more complete description of the rights of Debentureholders and their remedies subsequent to the occurrence of an Event of Default. For additional financial and other information about the Company, Debentureholders are further referred to information on public record at the Securities and Exchange Commission, 500 North Capital Street, Washington, D.C. 20549.

This Notice is published pursuant to Section 516 of the Indenture.

Inquiries concerning this Notice should be directed to George R. Sievers, Senior Vice President, or Mark F. McLaughlin, Assistant Vice President, J. Henry Schroder Bank & Trust Company, One State Street, New York, New York 10015, (212) 269-6500, or Joseph Chervin, Esq., c/o Rosenman Colin Freund Lewis & Cohen, 575 Madison Avenue, New York, New York 10022, (212) 940-8800, counsel for the Trustee.

J. HENRY SCHRODER BANK & TRUST COMPANY,
As Successor Indenture Trustee

Dated: December 22, 1986

UK NEWS

Both members of smallest trade union decide to call it a day

BY PHILIP BASSETT, LABOUR EDITOR

BRITAIN'S smallest trade union is going out of business for want of members. The entire membership of the London Jewel Case and Jewellery Display Makers' Union – secretary Mr Charles Evans and trustee Mr Fergus McCormack – met recently and decided to call it a day after 92 years.

The planned dissolution marks the end of a long craft tradition and indicates the intensity of the pressures on unions for survival: even on those almost too small to feel them.

The union once organised craftsmen making small, top-of-the-range jewellery cases, mainly in the Clerkenwell area to the north of the City of London. It has suffered as retail jewellers have brightened their retail image, introducing injection-moulded plastic in place of purpose-made wooden displays.

Membership peaked about 15 years ago, when it numbered 72. Despite the use of new materials the union managed to maintain its roll in double figures for some years. Its latest official return to the Government's Certification Office put its membership at 16.

However, the recent closure of a single company in which the majority of the union's members worked cut numbers to two.

Mr Evans, who has been secretary for more than 25 years, said the full membership of the union will meet on January 6 to prepare the accounts for the auditors and the Inland Revenue in preparation for dissolution.

He said he and Mr McCormack would then consider whether to join another union, and if so which one.

"You can't do anything with just two members," Mr Evans said. "We had no choice but to reach the decision to dissolve ourselves. I'm very sad about the union's demise."

Hertz forecasts rise in leasing rates

BY JOHN GRIFFITHS

SIGNIFICANT increases can be expected in business car leasing rates as a result of the weakening of sterling against European currencies and the yen, according to forecasts from one of the larger UK lease and rental groups, Hertz.

While some importers have warned of possible price increases of 20 per cent next year, Hertz has assumed an increase of 15 per cent in overall price levels to arrive at its estimates of leasing rates by the end of 1987.

Taking two principal fleet cars, it forecasts that the average monthly rental by then of a Ford Escort 1.6L 5-door, with 5-speed gearbox, will be £193 on a 24-month or 40,000 miles contract, compared with £175 now. The rate is for a non-maintenance contract without the provision of a replacement vehicle in the event of a breakdown.

A Cavalier 1.6L 5-door, 5-speed will cost £223 for a similar contract, against £202 now, according to Hertz's figures.

For a 36-month or 36,000 miles contract, on otherwise identical terms, the Escort would cost £185 a month (£169) and the Cavalier £200 (£183).

Sales of machine tools fall

By Nick Garnett

SALES of UK machine tools fell 12 per cent in the third quarter of the year compared with the second quarter, according to Department of Trade and Industry figures.

This confirms the experiences of British machine tool companies which began to experience a significant fall-off in demand from March which, they say, continued through until October when sales began to show some slight improvement.

Machine tool sales also fell by 13 per cent during the second quarter compared with the first three months of the year.

The slide in sales during July to September was made up of a slump of 19 per cent in the domestic market partly offset by a 2 per cent rise in export markets.

Statistics on machine tool sales are still reflecting the phased reduction in capital allowances in the UK.

Compared with the third quarter of last year, sales were down by 3 per cent, reflecting a fall of 13 per cent in domestic sales and an 11 per cent rise in exports.

Rules on tax 'biased against exporters'

BY CLIVE WOLMAN

THE UK's income and capital gains *tax rules and its double taxation* treaties are biased against exporters and a disincentive against overseas investment and trade, according to the British Invisible Exports Council.

In a paper submitted to Mr Nigel Lawson, Chancellor of the Exchequer, which is being published today, the council argues that the present tax system discriminates between profit generated in the UK and profit generated overseas in several respects.

In particular, some companies, the council says, are paying corporation tax at a rate of between 80 per cent and 90 per cent on their distributed profits because foreign taxes on profits repatriated to the UK cannot be offset against advance corporation tax. ACT at a rate of 29 per cent is deducted at source from dividends paid by UK companies.

An additional burden is created when a company with several overseas subsidiaries in different countries has to pay unrelieved foreign tax on some repatriated profits and faces a UK corporation tax liability on others. Foreign taxes cannot be aggregated in any straightforward fashion and compared with the total UK corporation tax liability.

The rules also discriminate against UK companies with foreign subsidiaries, says the council, as compared with an individual with foreign portfolio investments who *is allowed to offset his foreign with*holding taxes against his UK tax liability.

The council proposes that either foreign tax should be allowed as a credit against ACT or the relief for foreign withholding taxes should be allowed against ACT. Corporate portfolio investors should be allowed to offset foreign taxes against ACT.

The Inland Revenue's response to a court case three years ago, concerning the taxation of exchange rate profits and losses, is criticised. The revenue issued a provisional statement of practice nearly two years ago which was opposed by nearly all taxpayers' representatives, but since then no progress towards resolving the issues has been made.

The council says the provisional rules are arbitrary, in discriminating between exchange gains and losses and interest income and expenditure, they are restrictive on foreign trade and unnecessarily complicated.

The council also proposes a lower income tax burden on those promoting British exports abroad, tax incentives to encourage inward investment to the UK and to assist the shipping industry and the repeal of the provisions which transfer the tax residence of a company or its ownership abroad.

Ford sets a sales record in Europe

By Kenneth Gooding

FORD sold a record 1.49m vehicles in Europe this year, 50,000 ahead of the previous best performance: 1.438m in 1983.

The company's car sales alone reached a record 1.336m, well above the 1983 peak of 1.3m.

Ford said its capital expenditure in 1986 came to the equivalent of $694m (£479m) including $555m on product development but could not immediately provide any comparitive spending figures for other years.

The Escort was again Ford's best-selling car in Europe with 1986 sales of 433,100, and the company claimed the Sierra was Europe's best-selling family-sized car with sales of 307,600.

Ford's production statistics continue to reflect the steady fall in its exports from Europe, particularly to the Far East where the company now supplies its dealer networks with cars built by its associate Mazda in Japan.

However, at 1.577m this year, Ford's vehicle output was the highest since the 1.737m achieve in 1979.

Mr Kenneth Whipple, chairman of Ford of Europe, said the performance was very encouraging.

THE ARTS

The American Clock/Olivier

Martin Hoyle

Arthur Miller's Depression "vaudeville" has transferred to the spacious Olivier after packing them in at the Cottesloe. A newcomer to the play, I can imagine that a certain compactness has been lost in the move from the National's smallest auditorium, but the piece now assumes an occasional epic quality, as when Peter Wood's production gratefully fills the stage with an opening pageant of American types—Wall Street businessmen, socialites, college boys, housewives.

Michael Coveney commented favourably on the production in these pages last August. There are striking moments: the compressed mass of strap-hangers swaying in unison in an invisible subway train; the line of 20 hymn-singing countryfolk at the bitter auction sale of a failed farm; and the sudden, cruelly swift, suicide of a young man under a train.

The producer's main contribution to the 1980 play (a flop in New York) is to interpolate popular songs of the period. This, however, serves to fragment the work's episodic structure even further, to defuse tension and to soften the impact of the harsh social observation (taken from Studs Terkel). The final impression is that of the old BBC Home Service "Scrapbook" series, with hard facts bathed in nostalgia as yet another marvellous tune blurs the image.

Here the production emphasises the autobiographical element. The Baum family's son Lee (Neil Daglish) is a young Miller, trying to be a journalist, discovering America in Twain's footsteps, lusting after a committed Communist who works for Superman Comics and whose impassioned earnestness leaves him chastened. Michael Bryant, touchingly muted, is Baum Senior, and Sara Kestelman brings her usual intelligence and intensity to mother Rose.

Rose's final crack-up one sweltering afternoon, all windows closed to trick the dreaded mortgage man into thinking everyone is out, ends in a desperate prayer that the new president (Roosevelt) will help the country and its people. The stage darkens; gunfire provides an ironic reminder of the fillip provided to a flagging economy by war.

This would appear to be a natural and powerful ending to the play. But a rambling epilogue sees Lee and his student buddies in wartime, then after Korea and then in post-Vietnam uncertainty. Lee's unexpected speech on his mother seems to belong to another play. The accents grow phonier (Okon Jones's southern black voice is sheer *Amos 'n' Andy*), the mood portentous. A staggering miscalculation.

Sally Dexter carries the palm among the supporting roles. She has aged 20 years for Aunt Fanny, put on a couple of stone and changed her mouth into a crumpled, slanting snarl of disbelief or grin of satisfaction. Barrie Ingham is the financier who got out in time, though his sudden incapacity in a wheelchair made me wonder whether we had missed something. Some of the accents are not convincing — Alan Heywood's financial genius was unintelligible — and a secretary who makes the most of her two or three lines to try and upstage everyone in a display of coarse amateur acting should be sent back to the village hall.

Architecture/Colin Amery

Public plans and private passions

Not many architectural books fit easily into the Christmas stocking. Their format and price often seems to demand a specially strong Santa Claus with a powerful private sleigh. One book that would slip easily under the pillow of any architect friend you might have is *Architecture for Beginners*, by Louis Hellman (Writers and Readers. Unwin Paperback, £2.95). It is a cryptic and at the same time splendidly instructive account for beginners of all ages of the history of architecture, with some brilliant cartoons. His archetypical bow-tie wearing and bearded architect appears to be sustained by acute anxiety and is often overwhelmed by his creations.

Philippa Lewis and Gillian Darley have provided an essential handbook on a subject that has been neglected for too long. Their *Dictionary of Ornament* (Macmillan, £25) covers the sources and types of decorative styles in all fields from architecture to interior design, silver and furniture. If you have ever wanted to know what a pelta is, or to search out the origins of the canopic urn, or just identify the difference between vermiculated rustication and mere strigillation, this is an indispensable book. It is very enjoyable to browse through and the cross-referencing and intriguing illustrations mean that once you start looking something up you are soon off on a highly pleasurable endless trail.

Decoration leads to detail and an agreeable fireside evening could be spent with *London in Detail* by Ian Hessenberg (John Murray, £9.95) simply a picture-book of the elements that sharpen the eye and make any city distinctive. It is not all bollards and lamp-standards; the surviving richness of sculptural detail on London's buildings should inspire some of our more insipid modern architects.

The Post Modernist architect rummages in the dustbin of history, picking out Egyptian, Classical, Art Deco and Bauhaus ideas.

Andrew Byrne's love of Georgian London led him to publish privately his book *London's Georgian Houses* (from The Georgian Press, 28 Charlotte Street, London, W1P 1HJ, tel 01-631 0602. Paperback £9.95, hardback £16.50). The best books are the product of private passions and Mr Byrne wrote, photographed and designed the book himself. It is a noble record of an architectural period that makes London uniquely civilised. It is an essential book for all lovers of the eighteenth and nineteenth centuries, particularly as it roams over the whole of Greater London and makes some revealing discoveries.

If you are lucky enough to live in a Georgian house and are of a practical bent, the latest edition of an essential work has just appeared. Edinburgh New Town Conservation Committee have updated their *Care and Conservation of Georgian Houses* (Architectural Press, £19.95). Apart from the vital facts about roofs and flashings, downpipes and gutters, there is a useful new section on the treatment of the interior with indications of the appropriate furniture.

A book I have particularly enjoyed is *The Indian Style* by Raymond Head (George Allen and Unwin, £18.50). The book charts the influence upon the West of Indian architecture and decoration. The search carried out by Mr Head took him from Scotland to Australia and ranges from Nash and Repton to the designer of a house-boat in the style of the Taj Mahal currently moored in California. It is a fascinating and well-researched book that reveals cross-currents of architectural inspiration previously unnoticed.

I always like particularly those books that concentrate on one building and tell you more than you thought possible to know about it. *Fallingwater — A Frank Lloyd Wright Country House* by Edgar Kauffman Jr with an introduction by Mark Girouard (Architectural Press, £37.50) is a sumptuous example of the genre. This house built on a waterfall in rocky woods near Pittsburgh is a famous icon of Wright's work. The quality of his thorough understanding of the site and the relationship of the house to nature is gloriously illustrated in the book. Wright's profound objects — "to make human life more natural and nature more humane" — are perfectly demonstrated at Fallingwater. And the maxim could not be illustrated by a more beautiful book.

Quality of editing and research continues to astound, as yet another volume of the *Survey of London* appears. Volume XLII *Southern Kensington, Kensington Square to Earls Court* (Athlone Press, £55) simply maintains the highest possible standards in recording architectural history. Long may it continue the good work.

Osud and a Diary/Coliseum

David Murray

The English National Opera again presents Janáček's *Osud* (Fate) — three short acts played without an interval — as part of a double bill. But the unhappy Weill concoction which prefaced it two years ago has been replaced by another Janáček, *The Diary of One Who Disappeared*. That is a clear gain on at least four counts. Almost anything would have been better than the Weill concoction, and this is: though the *Diary* doesn't need staging, staging it offers a colourable solution to the problem of what to put with *Osud*; pairing two Janáček works from different times and on different scales, but with subtle analogies, makes an evening of provocative resonances; and the *Diary*, a masterpiece, deserves a wider audience anyway.

Osud is not a masterpiece, but a marvellously original and impassioned opera about what goes into operatic masterpieces. David Pountney's production (designed by Stefanos Lazaridis cogently and vividly) is mastery: it makes gripping theatrical sense of a flawed text, and therewith of Janáček's heartfelt score. The spirit of the thing always was genuine enough, but its literary realisation (by a poetess working to the composer's prescription) was too clever by half, which is to say not nearly clever enough. Pountney, always at his best when rescuing a "difficult" piece, achieves a clever *loyal* triumph.

The opera was prompted by a lady Janáček knew in 1903, who had been lampooned in an opera by a disappointed earlier admirer and wanted her image redressed. Oncee his *Jenufa* was done, Janáček aimed to comply but what seized his imagination was the idea of the operatic composer who must draw upon his own painful experience. The composer-hero of *Osud* (Philip Langridge repeats his *tour de force* of insight and stamina) has begun just such a bitter opera about a past love before curtain-up. In Act 1 he meets her again in a Czech Hi-De-Ho spa (folk-comedy background); by Act 2 they are maritally embattled and beset by the mad, unreconciled mother-in-law, and then an arbitrary mishap disposes of her and her daughter (psychological phantasmagoria). Act 3 has a Conservatory crowd sampling and deriding the opera made from *that*, whereupon the anguished composer silences them with an artistic-confessional monologue and collapses.

Played in the original naive terms, *Osud* must be risibly self-conscious and rickety; but making it all, say, "the Composer's Dream" (as some German productions have done) is ponderous and worse. Pountney's stylised vision is precisely ambiguous, accommodating wry caricature and frantic sincerity within a single frame. The score glows (Mark Elder conducts), and all its concerned anxiety gets full value. As an opera about opera-composing—even, if you like, about artistic invention—*Osud* is made to work superbly, where it might have seemed a crude amalgam of lofty intentions and raw stage-craft. Besides the dedicated central performance by Langridge, and Eilene Hannan and Ludmilla Andrew repeating their (respectively) prickly wife and ripe mother-in-law, the fine supporting cast is led crisply by Emile Belcourt and Christopher Booth-Jones.

*

The *Diary* is really only a song-cycle: though it adds a transient mezzo—the gypsy seductress—and a fateful women's trio to its heroic tenor and confessional piano, we need to see nothing that we aren't told about directly. Staging is redundant, but not necessarily a nuisance. Janáček set poems that appeared in his local newspaper, allegedly by an absconding, gypsy-struck farm lad; they trace his infatuation, surrender, momentary guilt and defiantly rapturous "disappearance," with the piano reporting what it would be indelicate to put into words.

Pountney places Paul Crossley's piano (cool, intelligent and sympathetic, if a bit hard-fingered) just where the *Osud* composer-hero's piano will be, in the centre of things. (In the *Diary* the old composer comments upon his greenstick hero, in the earlier *Osud* he identifies with him.) The young tenor protagonist, caught unawares by his own thrust toward freedom, is the middle-aged Arthur Davies, whose fine delivery of the role is slightly compromised by echt-Czech moustache and hat and general air of repressed maturity — adolescent self-discovery wears a different guise. The female trio is excellent, and Jean Rigby is a studiedly sexy gypsy in the familiar Pountney terms (slow-motion posing and leaning, much rippling of long hair). A concert-performance would be enough, but impossible in the Coliseum, since the intrinsic drama of the music is proof against anything, the *Diary* still makes a potent preface to the violent innocence of *Osud*. You should see them both while they last.

Alastair Muir

Jean Rigby and Arthur Davies

Alice in Wonderland/The Lyric

Michael Coveney

The Lyric, Hammersmith, has a long record of distinguished seasonal productions and this fine version by John Wells and Carl Davis of Lewis Carroll's first *Alice* volume maintains the standard. Like *Peter Pan*, this children's classic has often been invoked as anticipating Jungian dream and Freudian child psychology. Jonathan Miller's TV film is the best example of this cultural post-dating and is an imperishable interpretative masterpiece. But Wells and Davis show us the work uncluttered by cinematic or sub-textual comment and reactivate the strange and gripping poetry of the work on its own fantastical terms.

The show has been developed from an earlier radio commission for which Davis wrote a marvellous late-19th century pastiche score that moves between operatic nods towards Donizetti and Sullivan while providing sensitive settings of the nonsense poetry of the Mock Turtle and the Gryphon (the broken cadences of "Beautiful Soup" are particularly well ladled).

Ian Forrest's production begins and ends not on the river bank but in a Victorian parlour, Alice playing the piano beside her doll's house. Lesley Manville, knowing, priggish and fearless but more open-faced than Tenniel's Alice, rises from the keyboard as the music plays on the first sign of oddness. The early sequences of growing and shrinking are then cleverly enacted amid a forest of free-standing black doors and a rising glass table.

Down the rabbit hole she encounters an enlarged doll's house, after meeting the birds and animals in the pool of tears, conjured by a descending array of inverted silver kites. Anthony Wards design continuously makes play between imaginative visual response to Carroll's narrative descriptions and literal representation of such bizarre properties as the pink flamingo mallets at the croquet match, or the bushes of white roses half painted red.

The scenes are devised in a black void and are all the more startling for that. The Mad Hatter's tea party materialises on a horizontal grandfather clock, the exotically clad caterpillar (doubled with a sobbing incipiently marine turtle in a crepuscular tricycle by Harold Innocent) levitates on a tangerine mushroom. The fractured, instantaneous quality of Carroll's dream story is admirably honoured in this brusque presentation.

As things are curiouser and curiouser, and Alice declares she does not want to go among mad people, so she becomes more endemic to her own imagined scenario. The Cheshire Cat is lodged in a huge bell jar stuffed with grinning skulls, flower heads and artificial plants, the secret lovely garden of both forbidden adventure and lifeless decoration.

The King and Queen of Hearts and their court, all sumptuously and brilliantly costumed, cross the stage in a Felliniesque parade before operatic horns are locked between the outrageously middle European Duchess of Joan Davies and the imperious mezzo basso of Nuala Willis's Queen.

The movement is by Anthony Van Laast, the musical direction by Stuart Hutchinson, and a strong cast includes Charles Lewsen as the King and the Dodo, Christopher Good as a gruff Gryphon, Michael Mears at a triple-hatted Hatter, and Teddy Kempner and Terence Hillyer as strong musical support. An ideal family treat.

An Italian Straw Hat/Shaftesbury

Michael Coveney

One really blows both hot and cold about Ray Cooney's Theatre of Comedy enterprise. It is marvellous to have a set-up devoted to comedy and farce with many leading players under-used, or ignored, by the National and RSC. Not many shows this year have been as unforgettably enjoyable as the Whitehall *When We Are Married*. But Ray Cooney's version of Labiche's great vaudeville farce is a travesty of Labiche and, more to the point, a disaster on its own terms.

First, Labiche. Produced in 1851, *Straw Hat* is the first bourgeois classic farce, a detailed picture of Second Empire manners and social habits forming a backdrop to the flight through Paris of wealthy young Fadinard. Fadinard's horse has munched a straw hat belonging to an adulterous wife; the wife's husband gave her the hat and Fadinard is charged with replacing it, pronto. It so happens this is also Fadinard's wedding day. His bride and in-laws have trouble getting him to the church on time and the hero is tugged frantically between the desperate lovers and his importunate family. The four acts are fast, furious and funny, with a series of brilliant climaxes and resolutions.

Now, Cooney. Using a translation by a Texan actor, Barnett Shaw (first mistake, probably), Cooney has bumped everyone along to the general consensus's land of French Farce: 1899, Bastille Day, that frightful "Can-Can," a gallery full of everyone's favourite Impressionists, a climb up the Eiffel Tower, an interpolated funeral gag in the church and a lot of incompetent banging about. Saul Radomsky's sets look expensive but vulgar. There is no speed or panic.

Fadinard is played by Tom Conti whose irritating vocal delivery is an aural equivalent of the flirtatious fluttering eyelid: his sense of danger about as highly developed as Frank Bruno's interview technique. He is not so much laid back as, like Bruno, for much of the time, horizontal.

Several characters are cut, notably Fadinard's father-in-law; but even more misguided is the flattening out of the peculiar manner in which Labiche characterises his inventions, not just with physical deformities (the deafness of Clive Dunn's Uncle Vezinet is entirely jettisoned after one scene) but with continuous little physical discomforts such as pins in the back, or feet squashed into shoes that have been pounding the streets all day.

One is left with a stage full of inert, colourless people who rarely touch base with recognisable emotion or dismay, an essential pre-requisite of farce, French or English. For some reason Mr Conti indulges his Italian origins with a stage Italian accent ("Ciao tutti—I'm getting married today") and feels obliged, presumably because it's the pantomime season, to step through the fourth wall and talk to us in a pleasant, confidential, but for farce—thoroughly inappropriate manner. I admire Mr Conti's good looks and relaxed demeanour, but a great farce does not owe him a living—rather, he owes it some investment of effort and intelligence.

Fadinard's servant, Felix, is given a sprightly performance by Mark Hadfield, who might well have prospered further in a more competent production. Sheila Keith as Madame Nonancourt, the bride's mother, bullies her offspring through Paris, reserving a mouthful of garbled Chinese expletives for the recalcitrant little Chow Ling. And Deborah Norton, having had little success with the faithless Anaïs, turns in an irresponsibly funny version of the mistakenly invaded Baroness, playing her with the horsey regality and plaster-cast grin of the reluctant but vestigially welcoming hostess.

Bochmann Quartet/Purcell Room

In Thursday's Redcliffe Concert the Bochmann Quartet gave the Schoenberg Second Quartet a rare and greatly welcome performance. It seems absurd that, nearly 80 years after this tremendous work was first heard, one should still have to feel gratitude for any group willing to take it up — but then, the continuing public resistance to the greatness of Schoenberg's best music remains one of the fascinating artistic mysteries of the 20th century.

The F sharp minor Quartet is a kind of spiritual journey, in which a line of ascent is drawn from the emotional angularities of the first movement to the unearthly peace of the fourth. The point of no return comes in the third, in which a solo soprano enters to sing an impassioned setting of Stefan George's "Litanei"; when, in the fourth, she floats in with the George words "I sense the air from another planet" (the opening of his "Entrückung"), the musical and dramatic compass of the work is at last fully revealed. The players who tackle the Schoenberg Second must of necessity sink themselves deep in its substance. Accurate traversal of the notes is only the beginning.

The Bochmann is one of the prominent young British quartets; their playing was precise, musicianly, committed. But the gratitude already expressed should not be allowed to disguise the fact that, in spite of these good qualities, their performance was of the beginners' sort.

In the groundwork-laying first two movements the flow of argument and mesh of Schoenberg's characteristically intense contrapuntal working lacked the swift, nervy responsiveness between players that comes with longer experience of the music; the Scherzo was short on Viennese irony. Interestingly, the song movements—in which the exemplary soloist was Margaret Field—were much more fully characterised, a basis from which to return to the work and deepen the exploration of it. Let's hope the Bochmann feel sufficiently encouraged by the encounter to do just that.

In the first half they had done their best for William Alwyn's Third Quartet, the last of his works to be completed before his death last year. I have to confess a want of sympathy for well-made works of this particular English Late Romantic brand, but would guess that on its own terms it is a skilful and sensitive piece of quartet-writing. The concert opened with the Dance Suite by the Redcliffe Concerts' founder and organiser, Francis Routh.

MAX LOPPERT

Arts Guide

Music/Monday. Opera and Ballet/Tuesday. Theatre/Wednesday. Exhibitions/Thursday. A selective guide to all the Arts appears each Friday.

December 19–25

Music

LONDON

Chapelle Royale, Paris and Ghent's Collegium Vocale: Mozart Requiem and Haydn's Lord Nelson Mass (Mon). Théâtre Mogador (4874 5724).

Nouvel Orchestre Philharmonique conducted by Marek Janowski with the Radio France Choir; Die Fledermaus (Tue). Salle Pleyel (4561 0630).

Christmas Service of the Paris Gregorian Choir conducted by Francois Polgar: First Vespers (5 pm), Matins (8 pm). Midnight Mass (9.45 pm). (Wed); Mass of the Day (11 am), Second Vespers (5 pm). (Thur). Val de Grace Chapel, 277 bis, Rue Saint-Jacques. Metro Port Royal. Free entry.

ITALY

Venice: Church of S. Maria Della Pieta: Venice Chamber Orchestra playing Vivaldi's Magnificat and Gloria (Tue).

Bologna: Chiesa di S. Domenico: Richard Chailly conducts Rossini's Petite Messe Solonnelle sung by soprano Susan Dunn, mezzosoprano Lucia Valentini-Terrani, tenor Bruno Beccaria and Michele Pertusi, bass (Tue). (52 99 99).

NETHERLANDS

Amsterdam, Concertgebouw. Bernard Haitink conducting the Concertgebouw Orchestra: Mahler (Thur. matinee). Recital Hall: Children's concert (Tue, 2 matinees). (71 83 45).

Rotterdam, De Doelen. Choral concert by Deo Cantamus and Song of Praise conducted by Arie Pronk (Mon, Tue). Christmas concert by the Greater Rotterdam Choir, with Brouwer and Everhard Zwart, organ (Tue, matinee). (414 29 11).

Utrecht, Vredenburg. Handel's Messiah performed by the Utrecht Oratorio Society and solists, with L'Estro Armonico orchestra conducted by Johan van de Camp (Tue). (31 45 44).

The Hague, Congresgebouw. The Netherlands Philharmonic Chamber Ensemble led by Istvan Párkányi, violin, with Nancy Argenta, soprano: Corelli, Bach, Vivaldi (Mon). (54 80 80).

Amsterdam, Nieuwe Kerk. The traditional Christmas concert by candlelight, with the Cappella Amsterdam, Bernard Winsemius, organ, Erica Waardenburg, harp, and Herman van Karkhoff, tenor: Bistler, Britten, Howells (Tue). (268 168).

BRUSSELS

Palais des Beaux Arts: National Opera Symphony Orchestra. Mahler (Thur). (512 5045).

TOKYO

Michio Kobayashi, harpsicord. Bach, Goldberg Variations. Tokyo Bunka Kaikan Recital Hall (Wed). (501 5638).

Japan Philharmonic Symphony Orchestra, conducted by Ervin Lukacs. Beethoven's ninth symphony. Tokyo Bunka Kaikan (Mon); Kosei Nenkin Hall. Shinjuku (Wed); Hibiya Hall (Thur) (234 5911; 980 6060).

NHK Symphony Orchestra Beethoven and Handel's Water Music conducted by Otmar Suitner (Mon, Tue, Wed, Thurs). NHK Hall (465 1780).

Suntory Hall, Akasaka. Handel's Messiah. Orchestra and Choir of Rikkyo University. Conductor: Noboru Kaneko (Mon); Beethoven's 8th Symphony, and Bartok Concerto for Orchestra. Sophia University Orchestra conducted by Yasuhiko Shiozawa (Tue); Tokyo Philharmonic Orchestra, conducted by Tadaaki Otaka. Beethoven (Thur). The Suntory Hall is in the new Ark Hills complex in Akasaka. Convenient for most hotels and within walking distance of the Okura (505 1010).

Tokyo Symphony Orchestra, conducted by Kazuyoshi Akiyama. Combined choruses, Waseda. Tokyo Bunka Kaikan. (Wed). (362 6764; 980 6060).

Traditional Japanese music: Shakuhachi (bamboo flute). Recital by American master of the instrument. Studio 200, Seibu Dept. Store. Ikebukura (Mon). (981 0111, ext. 5328/9).

NEW YORK

Carnegie Hall: New York String Orchestra. Alexander Schneider conducting. All-Bach programme (Wed midnight). (247 7800).

Merkin Hall (Goodman House): Eileen Davis mezzosoprano recital with Thomas Grubb, piano. Ravel, Mozart, Brahms, Bizet (Mon); Seta Karakashian piano recital with Maro Partamian mezzosoprano, Tigran Makarian cello. Milhaud, Ravel, Alkan, Brahms, Mussorgsky (Tue). 67th w. of Broadway (362 8719).

WASHINGTON

Concert Hall: The Waverly Consort. The Christmas Story from mediaeval sources directed by Michael Jaffee (Mon); Messiah Sing-Along (Tue). Kennedy Center (254 3770).

BASE LENDING RATES

	%		%		%
ABN Bank	11	Citibank NA	11	● Morgan Grenfell	11
Adam & Company	11	Citibank Savings	¶12.45	Mount Credit Corp. Ltd	11
Allied Arab Bk Ltd	11	City Merchants Bank	11	Nat Bk. of Kuwait	11
Allied Dunbar & Co	11	Clydesdale Bank	11	National Girobank	11
Allied Irish Bank	11	Comm. Bk. N. East	11	Nat Westminster	11
American Exp. Bk	11	Consolidated Cred.	11	Northern Bank Ltd	11
Amro Bank	11	Co-operative Bank	*11	Norwich Gen. Trust	11
Henry Ansbacher	11	Cyprus Popular Bk	11	PK Finans. Intl (UK)	11½
ANZ Banking Group	11	Duncan Lawrie	11	Provincial Trust Ltd	12
Associates Cap Corp	11	E. T. Trust	12	R. Raphael & Sons	11
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Bank Credit & Comm	11	First Nat. Fin. Corp	11½	Standard Chartered	11
Bank of Cyprus	11	First Nat. Sec. Ltd	11½	Trustee Savings Bank	11
Bank of Ireland	11	● Robert Fleming & Co	11	UDT Mortgage Exp.	¶12.25
Bank of India	11	Robert Fraser & Ptrs	12	United Bk of Kuwait	11
Bank of Scotland	11	Grindlays Bank	‡11	United Mizrahi Bank	11
Banque Belge Ltd	11	● Guinness Mahon	11	Westpac Banking Corp	11
Barclays Bank	11	HFC Trust & Savings	11	Whiteaway Laidlaw	11½
Benchmark Tst Ltd	11	● Hambros Bank	11	Yorkshire Bank	11
Beneficial Trust Ltd	12	Heritable & Gen. Tst	11		
Berliner Bank AG	11	● Hill Samuel	§11		
Brit. Bk. of Mid. East	11	C. Hoare & Co	11		
● Brown Shipley	11	Hongkong & Shangh'i	11		
CL Bank Nederland	11	Knowsley & Co. Ltd	11½		
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The Nutcracker/Covent Garden

Clement Crisp

There can be no greater compliment than to say that the Royal Ballet's *Nutcracker* honours Chaikovsky's music. Where the score is at its greatest—the whole of the first act seems to me as imaginatively vivid as anything the composer wrote for the theatre — there the staging responds with sympathy. I have already commented this season upon the magical effects obtained during Drosselmeyer's transformation of the Stahlbaum drawing-room, as the scale of Clara's world changes to nightmare proportions, the Chrismas tree grows, and the battle with the mice ensues. Listening to Gennady Rozhdestvensky's loving account of the score on Saturday afternoon and evening, with the Opera House orchestra on best form, there seemed the happiest relationship between what we heard and what we saw. Chaikovsky's poetic fervour, the skills of Julia Trevelyan Oman as designer and of Peter Wright as producer, were in entire harmony, and we — audience elderlies and tots alike—were held in a child's gasp of delight at the mechanical excitements that a theatre can give us and, *pace* the recent *Beauty and the Beast*, give us with theatrical purpose in *Nutcracker*.

The second act divertissements are a bore, except for the pretty Mirlitons numbers, and there was not much sparkle about them on Saturday. But the grand pas de deux and the return to Drosselmeyer's story puts the gilt back on the seasonal gingerbread, and the rounding-off of the narrative leaves a sense of dramatic satisfaction rare in stagings of this most difficult ballet. For difficult it is: intractable in its libretto, it asks, in effect, for different perceptions from us about what a ballet can do as spectacle. Spectacle in *Nutcracker* is both a view of a world and a means of transcending it, and in this the present version is entirely happy.

Performances on Saturday brought several debuts. At the matinée, Maria Almeida and Antony Dowson were stylish, technically clean, as the Sugar Plum Fairy and her cavalier, with Miss Almeida most attractive in the variation, and Mr Dowson shaping his solo with fine assurance. In the evening, Cynthia Harvey gave a dazzling, light account of the Sugar Plum Fairy, elegant at every moment. A Nutcracker new to me was Philip Mosley, engaging in manner as in dancing, and I have to report that a young spark from the Royal Ballet's Junior School, Christopher Wheeldon, is a Fritz wonderfully convincing in his acting and a neat, buoyant dancer.

FINANCIAL TIMES

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Monday December 22 1986

A new era at the IMF

A CHANGE of leadership at the International Monetary Fund is an event charged with significance. The IMF's power and influence in the world economy, especially for developing countries, is second only to that of the US Treasury. Moreover, new managing directors are a rare commodity: Mr Michel Camdessus, who relieves Mr Jacques de Larosiere in the New Year, will be only the seventh incumbent since the IMF was founded at Bretton Woods in 1944.

Mr Camdessus takes charge at a critical juncture. The Fund's external reputation and internal morale are not at their highest. Officials acknowledge that credibility has been lost in Latin America where IMF recipes for short-term adjustment are frequently held to be incompatible with development in the longer term. Countries have voted with their feet; despite chronic economic problems there are comparatively few Fund programmes still in operation. Brazil, most visibly, remains adamant that it will determine its own fate.

The IMF also faces a challenge in Africa. Egypt's financing needs are hitting the headlines, but the plight of some very poor sub-Saharan countries, which have fallen into arrears with the Fund, is even more severe. Mr Camdessus may have to find some way of giving these extremely poor debtors a fresh start. He will also have to heed the critics who argue that, with so much money already committed to Latin America, the Fund's own resources are just not adequate. In view of the magnitude of the balance of payments problems of member countries. There is a case for a big increase in resources in the coming round of quota negotiations.

Global role

Much of Mr de Larosiere's time and energy was taken up with North-South debt related issues. Mr Camdessus will not be able to avoid similar pressures. Other debtors will need flexible rescheduling packages of the sort agreed with Mexico; and the commercial banks will have to be cajoled into resuming net lending to the Third World—where industrial returns are potentially extremely high. But the hope must be that the role of the World Bank grows more important under its new president, Mr Barber Conable, allowing the IMF to withdraw somewhat and devote more resources to North-North issues: the economic relations between industrial countries, which so far remain poorly coordinated.

The new managing director needs to have more time to think strategically about the IMF's global role and its responsibilities as a monitor of economic policies in the industrialised world. Mr de Larosiere, as a tough "crisis manager," struggled with some of the worst Third World symptoms of macroeconomic and monetary disorder in developed countries. The debt crisis would not have been so severe had the Opec surpluses of the 1970s been more carefully recycled and had the US Fed not been obliged to stamp so hard on the monetary brakes to curb runaway inflation. What are needed are preventative measures to avert such disorders in the future.

Main risk

Mr Camdessus certainly seems the ideal man to promote the cause of macroeconomic co-operation and consultation, and the effective surveillance of policies which will be necessary if current account imbalances, protectionism, unemployment and debt crises are to be avoided. He seems genuinely interested in such questions, unlike Mr de Larosiere, who sometimes appeared sympathetic to the international brand of laissez faire espoused by Mr Donald Regan when US Treasury Secretary. Mr Camdessus, only last April, gave an eloquent speech in support of current target zones.

The main risk is that Mr Camdessus in his early months at the IMF will prove too hesitant, too unwilling to provide a clear intellectual lead. This would be a pity because the problems facing the world economy go far beyond the correction of immediate payments imbalances. At some point, the debate about the nature of the world monetary system will have to be re-opened. As the US's economic influence gradually wanes, it becomes increasingly clear that the world cannot forever remain on a de facto dollar standard. Mr Camdessus must not be afraid to think aloud about the really big questions.

Wrong approach to rates reform

THE premature electioneering by Mr Nicholas Ridley, Britain's Environment Secretary, on behalf of the proposed Community Charge as a replacement for the local rates is unfortunate. The one argument he has advanced in its support would not go down well in an Australian court of law; his claim that the consultation exercise has produced "a consensus in favour of abolishing the local rate" is disingenuous in two senses. First, this was not the question put; the exercise was simply to test reaction to the new proposals. It is only a majority of those who expressed a view on the rates—no doubt a minority of those who responded—who favoured abolition. Second, any implication that the Government's own proposals won support is simply untrue, which is why Mr Ridley did not say so explicitly. Respondents, and especially expert respondents, are so far as we can discover almost unanimously opposed.

The trouble is that the proposed charge is a thoroughly bad way of achieving a worthwhile result—an effort to get the voters interested in reasonable value for money in their local services. This is indeed an urgent matter. The present system, under which the poorer ratepayers get their services free of charge, has had appalling results. The worst local authorities are so extravagant, and so inefficient at imposing the most elementary cost disciplines, that the Government has been driven further and further towards overriding local decision-making powers altogether. The competent majority suffer for minority follies, and democracy is damaged.

Marginal services

The logical approach to this problem is to move towards central funding, with centralised cost disciplines, on the major services which the local authorities are obliged by statute to provide. By far the biggest is education, and local autonomy over policy is likely to be reduced here for purely educational reasons. Financing could well be centralised in line with the curriculum.

At the other extreme of the budget, the cost of marginal and especially of optional services could fall entirely on domestic ratepayers, who have votes; and this will be a major benefit from the imposition of a uniform national business rate. Unfortunately, though, this still solves only half the problem; as long as rates are so high that the poorer householders can pass on the whole bill to social security, they get their services free.

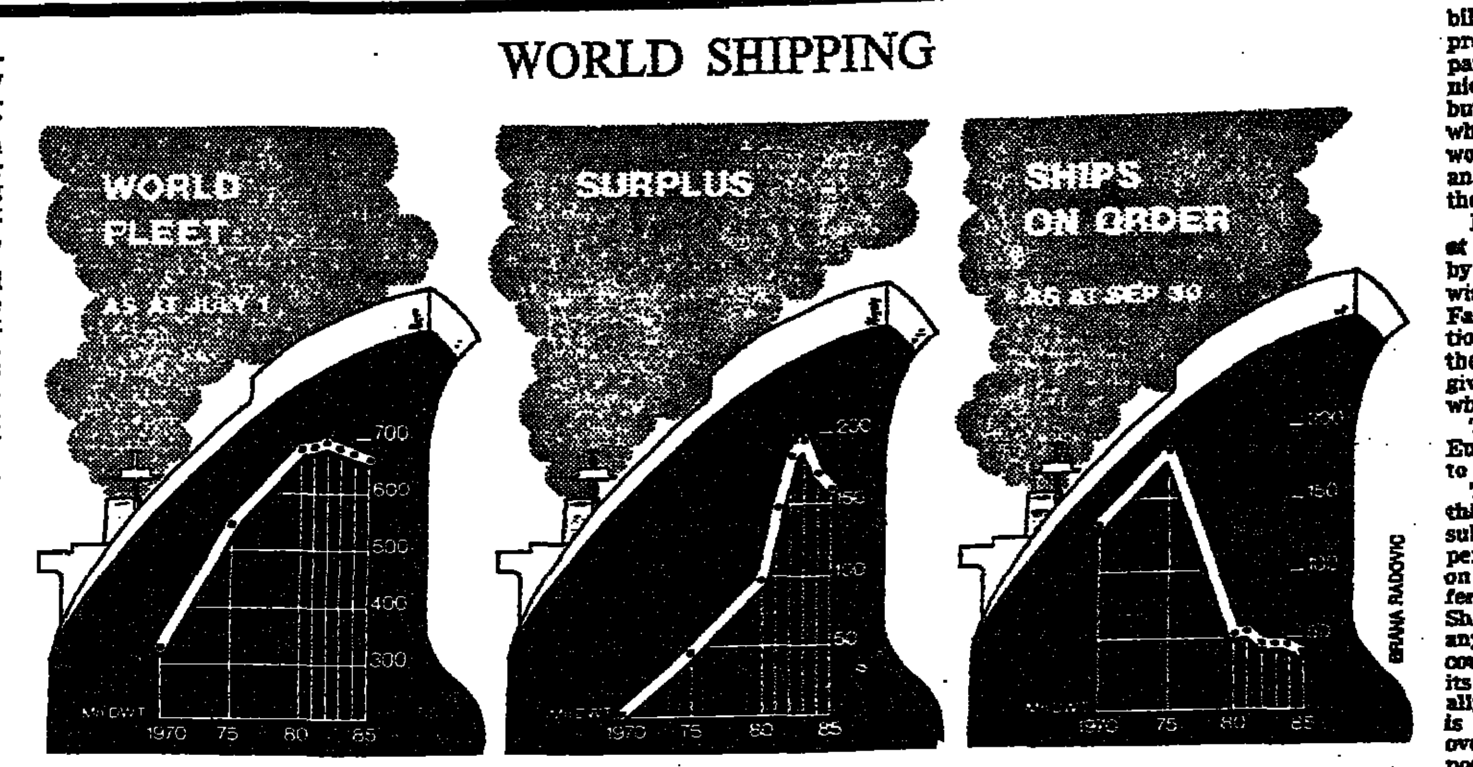
This leads naturally enough to the Government's proposal that everyone should have to pay something towards local services; but Ministers have chosen the wrong sort of charge to impose. The rates are criticised because they are only vaguely related to the means of those who have to pay them. This criticism is hardly met by replacing rates with a charge which is completely unrelated to means (thus knocking away the cornerstone of British tax philosophy). Rate relief, it is argued, contributes to the poverty trap; so would the proposed relief for up to 80 per cent of the community charge.

Electoral appeal

Indeed, the only two visible virtues of the community charge is that it bears some simple relationship to payment for services received (whether wanted or not), and that it honours the letter of a largely forgotten pledge by Mrs Thatcher to replace the rating system. Voters can hardly have supposed that she meant to replace it with something nearly all experts regard as worse—regressive between families and regions, and for that reason still less able to carry the burdens likely to be thrown on it.

Mr Ridley seems to believe it nevertheless has electoral appeal. Holders of marginal Tory seats may well wonder if this appeal would survive once voters were fully informed on what is likely to hit them—a brief which is no doubt being tackled with relish at Labour Party headquarters in Walworth Road. There are plenty of better alternatives on offer—from the Duke of Edinburgh, from the Royal Institute of Chartered Surveyors and from numerous academics and experts. The Government should not settle for this ill thought out sop to Scottish ratepayers without further study.

WORLD SHIPPING



A hard lesson starts to stick

By Kevin Brown, Shipping Correspondent

THE EUROPEAN Community's Council of Industry Ministers meets in Brussels today to take a "final" decision on the urgent question of a new subsidy régime for shipbuilding. The betting among Europe's shipbuilders is that the Council will funk the issue, for the second time this year.

If so, they will be in good company. The UN Committee on Trade and Development managed to agree in Geneva last month both that the world's maritime industries are in a mess, and that a crisis session on how to put things right should be put off until 1988.

After 10 years of maritime recession, governments still do not know what to do about the problem of too many shipyards turning out too much tonnage, and too many ships chasing not enough business.

But while the problems of the maritime industries are in part the consequence of mistaken policy, they are not the result of irrational actions.

Shipbuilders increased capacity to cope with projected orders. Governments provided subsidies to protect jobs. And shipowners took advantage of cheap credit and easy finance from sometimes gullible bankers to expand their fleets at knock-down prices.

This has created a vicious circle in which owners are able to buy ships at give-away prices which simply increases the level of over-supply. This ratchet effect will continue until governments bite the bullet and agree to close up to 40 per cent of shipbuilding capacity and to finance the scrapping of hundreds, perhaps thousands, of existing ships.

The world shipping industry bears more than a passing resemblance to a rusty tramp steamer looking for any port in a storm.

The root of the problem lies in the volume of world trade, which more than doubled in the decade after 1965, but then fell back to a level in 1985 only just above that of 1974.

Shipowners who embarked on justified expansion in the good times proved reluctant to accept that reductions in international trade were not temporary.

As a result, the total surplus tonnage of the world merchant fleet increased from just 0.6m tonnes deadweight in 1970 to a peak of 193.8m tonnes in 1983, and then dropped back to 161.8m tonnes in 1985. Put another way, last year, 24.3 per cent of all the merchant ships in the world were surplus to requirements.

The faith of owners in an impending upturn in trade is indicated by the fact that the number of new ships on order continued to grow until 1981.

Since 1981, the level of orders has fallen in line with the growing consensus that a substantial upturn in the volume of world trade is not to be expected in the foreseeable future.

Nevertheless, more than 40m tonnes were still on order at the end of last year.

In these circumstances it is hardly surprising that a number of big names in the shipping industry have run into serious trouble. The most recent have been in Japan, where Sanko Steamship collapsed in August last year, and in Hong Kong where Wah Kwong is still trying to win agreement from creditors for a restructuring plan.

In a sense, the depth of the crisis, described by Mr Paul Slater, chairman of First International Capital, as "shipping's version of a nuclear melt-down," has become apparent only as the impact has moved east.

The collapse of Sanko line in particular came as a huge shock in Japan—but it looks as though the shipping community there may have to brace itself for further problems.

All six of Japan's leading shipping companies reported results for the six months to September which were the worst since the previously fragmented industry was rationalised in 1969. Only three were in the black at the pre-tax level.

The worst effects of the crisis are probably over in Europe, where those shipowners who avoided collapse have either diversified away from shipping—like British and Commonwealth Shipping and Ocean Transport and Trading—or cut costs dramatically by operating under the cheaper open registers, notably Panama and Liberia.

Flagging out, as this process is known, has kept many of the major maritime nations in the shipping business. But governments are becoming increasingly worried about the strategic implications, as well as the loss of tax revenue.

The British Government recently announced limited measures to make flagging out less attractive to UK owners

In North America, attention is focused on the containership giant US Lines, which has filed for protection under Chapter 11 of the US bankruptcy code.

The spectacular collapse of the grandiose round-the-world container service pioneered by US Lines is made all the more dramatic by the grand-old-man status of the company's founder and former president, 73-year-old Mr Malcolm McLean.

Mr McLean virtually invented the container shipping industry in 1956 when he converted a former Second World War tanker to carry truck trailers on its deck. Still the entrepreneur, Mr McLean gambled that there would be a market for 12 jumbo-sized, slow-sailing container ships costing $50m each. He was wrong.

The future of some of US Lines' big ships is still in doubt and there could be major repercussions if they are unloaded on the second-hand market at quick sale prices. At the end of the day, however, US Lines ran into trouble because of a strategic error by Mr Malcolm McLean, the founder and chairman, whose round-the-world service proved a huge loss maker.

A great deal of creditors' money is tied up in the fate of US Lines, but even the $1bn worth of debts believed to have been built up by Mr McLean pales into insignificance compared to the amount the banks are likely to lose in the next few years.

Mr Slater, a leading shipping financier, estimates that losses to date already amount to around $3bn, and his estimate of the banks' total exposure is a breathtaking $20bn.

As the debt storm breaks, the volume of orders is likely to fall, and eventually supply and demand will come back into balance. When this might happen is unclear, however, and projections by the Association of Western European Shipbuilders indicate that the world fleet will still be suffering at least 8 per cent oversupply by 1990.

Falling orders have serious implications, of course, for the supply end of the maritime business. Even the limited reduction that has taken place so far has had a catastrophic effect on shipbuilders, and the world excess of capacity over requirements is now estimated at 40 per cent.

Shipyards increased capacity dramatically during the years of increasing orders, often with financial assistance from governments, and then found themselves forced to offer generous credit to keep the orders flowing when things turned sour.

As the situation worsened, governments stepped in to protect market share and employment, and a variety of direct and indirect subsidies began to appear in an effort to keep the yards open. The effect was to force down the price of new ships to the point where virtually all yards are now selling at below the cost of production.

This has created a vicious circle in which owners are able to buy ships at give-away prices which simply increase the level of over-supply.

The level and method of subsidies varies from country to country, but figures produced by the Organisation for Economic Co-operation and Development show that in 1983 the total was around $5bn, on ship sales of around $20bn. In other words, taxpayers are meeting around 25 per cent of the cost of ship production.

If a company goes out of business because over-supply has made the level of freight rates uneconomic, it sells its ships on the second-hand market, further reducing the price of good ships.

The problem facing the maritime industries is how to break out of the cycle in order to bring supply and demand back into balance.

In a report produced in November, the Unctad secretariat noted: "A very disturbing aspect of this situation is the evident conclusion that there is no self-correcting mechanism at work on a worldwide basis which tends to readjust supply and demand of tonnage within a reasonable period of time."

European shipbuilders are fond of claiming that the villain of the piece is South Korea, which expanded capacity by 240 per cent in the 10 years after 1975.

The Koreans still have only about one-third of the capacity of western Europe, however, and about 25 per cent of the capacity of Japan. While they are considered unlikely to expand further because of accumulated losses, they are resisting any erosion of their hard-won market share.

The real problem is that each of the major shipbuilding areas is waiting for the deteriorating position to force the others to act. There have been informal talks, but Mr Gerard Dedeystere, head of Unctad's shipping section, say: "Everyone is pointing the finger at everyone else.

"It took a long time within the OECD even to get the Europeans and Japanese to talk together. Now they are trying to bring in the Koreans, but they are reluctant because they are the price leaders."

Mr Dedeystere adds: "It is only in the past two or three years that the realisation has dawned on practically everybody that we will be faced with this situation for some time to come."

This scenario, in which the weakest go to the wall, is a nightmare for the European yards, which cannot compete with Korean wage levels despite major progress in improving productivity and labour flexibility in recent years. Relative productivity is difficult to compare because construction techniques change from ship to ship, but the days are largely gone when European yards were the worst in terms of overmanning and rigid demarcation within the workforce.

British Shipbuilders has been at the forefront of a campaign by some European yards which wish to see the EEC prevent the Far East winning a war of attrition by publicly declaring that the Community will defend a given level of world capacity, whatever the cost.

There is no sign that the European Commission is ready to accept this view.

The most likely outcome of this debate is thought to be a subsidy ceiling of around 30 per cent of costs, possibly on a variable basis for different types of ships. British Shipbuilders has warned that anything less than 38 per cent could leave it unable to balance its books. Whatever is eventually decided, the revised regime is not designed as an attack on overcapacity — its primary purpose is simply to place all European shipbuilders on the same competitive footing.

The EEC has had more success in formulating a common shipping policy which will allow the Community's maritime nations to take joint action against cargo reservation — the practice whereby cargoes are reserved for ships of specific nations — and unfair pricing by non-Community ships.

The credibility of the agreement is undermined however, by the crucial failure to agree on cabotage rights — the carriage of goods within national waters —which are still reserved by some member states for their own shipping.

Mr Stanley Clinton Davis, the EEC Transport Commissioner, says the agreement shows that governments have the political will to develop a common shipping policy.

"This is not going to be a panacea; it is not going to save our fleets. But it is an essential precondition for doing so," he says.

One man paid to have a worldwide view of the crisis is Mr Jim Davis, chairman of the International Maritime Industries Forum, which brings together both suppliers and owners from all over the world.

The IMIF has been at the forefront of a campaign to encourage governments to reduce overtonnaging through increased scrapping of existing ships, to persuade shipbuilders to rationalise capacity, and to prevent banks lending money for speculative shipping orders.

"There has to be an international, intermodal approach to the problem. The ship owners are not going to solve it alone, nor are the shipbuilders, nor are the bankers, nor is one government able to act alone," he says.

Nonetheless, Mr Davis sees hopeful signs. The number of ships scrapped is increasing, there has been a perceptible tightening of the purse strings by bankers, Japan has begun a further round of cuts in shipbuilding capacity, and "the shipowners have run out of capital, so they cannot be wildly optimistic even if they want to."

Certainly there appears to be an emerging consensus that things are beginning to move in the right direction.

There are likely to be a few squalls to be negotiated yet, however, before the industry can claim it is once again berthed in a safe harbour.

Men and Matters

Phillips' sense of gilt

At 51, Patrick Phillips is the oldest playing member of the Old Merchant Taylors rugby club. The combination of age and energy seems to have equipped him well to produce the first heavyweight book about the post-Big Bang gilt-edged market, now barely two months old.

Phillips, who is a director of Barclays de Zoete Wedd, tells me he actually finished the book, an update of an earlier work, last spring, and he inserted last-minute developments on proofs during the summer. "I really wrote it on an expectational basis," he said.

"Inside the new gilt-edged market" has a lot to say about how the market works. It conspicuously avoids making any forecasts as to whether the 27 institutions competing in it are heading for a bonanza or, as many people fear, a bloodbath.

But Phillips was willing to offer some thoughts yesterday. "I don't foresee any rapid dropping-out. The market participants have a lot of capital, and they have parents who would not welcome such an outward and visible sign of failure." Anyway, Phillips believes that any drop-outs would quickly be replaced by newcomers, particularly the Japanese, so there will be no falling off in competition.

Account due

It seems it is not only Kenneth Baker, the education secretary, who has doubts about the financial sense of John Pearman, the local authorities' leader, who wants to pay all teachers up to £15,058 a year.

Pearman, Labour leader of Wakefield city council for the past year, has acquired something of a reputation for spending rather more from the civic coffers than did his predecessors.

He has just decorated the city centre with Christmas lights.

At a little ceremony to mark the switching-on, the "Wakefield Wonder," as he is known locally, was told: "You have come to us with great gifts. God knows how you are going to pay for them."

Country seat

Country pursuits have long been dear to the hearts of the men in the boardroom of merchant bank Lazards. The present chairman Sir John Nott, and his predecessor, Sir Ian Fraser, relax from their labours by farming sheep in the west country.

Mrs Frances Heaton, aged 42, who has just been appointed the first woman Lazards board member, has evidently entered into the rural spirit of the place. She tells me that her Christmas present to herself on winning her place is a chestnut gelding ("subject to veterinary approval" she adds with a banker's caution). She adds that she has, in fact, been saving for the horse for the last 19 years.

Heaton, mother of two sons aged 14 and 11, was one of the pioneers of the privatisation game. As an assistant secretary at the Treasury in the late 1970s she worked on the first BP sale for the Government. She joined Lazards six years ago as a corporate finance specialist, and has been thoroughly immersed in privatisation matters ever since.

For the last three years she has been hard at it with the TSB issue.

Now she is handling one of the smallest privatisation schemes so far which, she says, nevertheless is proving one of the trickiest because of the large number of government departments involved.

It will mean selling off the National Seeds Development Organisation, and part of the Plant Breeding Institute at Cambridge. Apparently the aim is to free varieties of winter wheat from state shackles.

"Nitrates, acid rain, fall out —and you expect me to take more water with it?"

Star quality

When the annual Confederation of British Industry conference is televised *it doesn't exactly* dent the ratings for East Enders or Coronation Street.

But, rather to his surprise, Keith McDowall, the CBI deputy director general in charge of publicity, has just found out that the conference is now a much bigger draw than any of the party political gatherings.

Earlier this year when Channel 4 decided to drop its "gavel-to-gavel" coverage of the conferences there was gnashing of teeth at the various party headquarters.

The CBI, fearful of the possibility that they had the highest "switch-off" factor of all, decided to adopt a different tack. McDowall, who says he didn't want the CBI "to be left off the end of the sledge" happily *settled for a half-hour* summing-up programme each evening.

Now the CBI has learned that audiences for the coverage of its Bournemouth conference totalled more than 500,000, and were rated higher than any of the other seaside spectaculars.

New to golf

Finland is not one of the world's leading golf centres yet.

But Amer, the leading Finnish maker of consumer goods and sports equipment, is not admitting to any handicap on that account.

The company's chief Heikki Salonen, has just done a deal with Jack Nicklaus, arguably the world's most successful golfer, and in financial terms probably the world's most successful sportsman as well, to buy 80 per cent of his company, MacGregor.

The "green fee" was $8m, which just happens to be slightly more than the great golfer's annual earnings. MacGregor makes golf clubs, bags, and assorted golf gear, and has a turnover of $50m.

Salonen has acquitted himself well on the acquisition fairways recently. His company's sales increased by 17 per cent to $1bn during the year to last August.

He does not play golf yet. But he is no stranger to the world of sporting goods. Amer became the world's leading maker of ice hockey equipment until it sold the division earlier this year to a competing Finnish maker, Karhu-Titan.

Fellow feeling

For the woman who has everything.

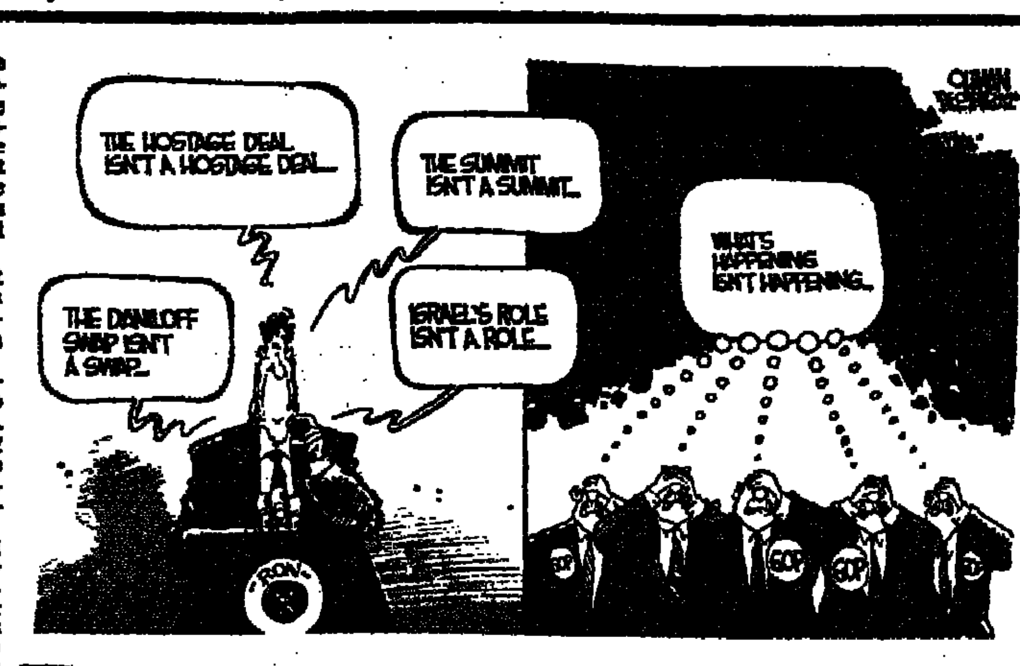
In New York this Christmas jeans are on sale with a message embroidered on the seat, "If you can read this you are too close."

So far so good. But the message is embroidered in Braille.

Observer

Democrats tread softly in search of victory

By Stewart Fleming, US Editor, in Washington



AFTER SQUIRMING under the yoke of an ideologically assertive Republican White House for the past six years, the Democratic Party could today be forgiven for gloating over what most Democrats believe to be the collapse of the foundations of President Reagan's imperial presidency.

As the evidence mounts that Mr Reagan is failing to contain the arms-for-Iran crisis his political opponents have adopted a statesmanlike stance.

True, the occasional Democratic loose cannon, Rep Stephen Solarz, for example, has rolled across the deck firing wildly in the direction of the President himself but, otherwise, in public at least, Democrats have held their fire.

Proclaiming that the national interest must take priority over the interest of party, Democratic spokesmen have sought to impress upon the nation's voters that they are not out to "get" a popular president but to get to the bottom of an affair which is a national and international embarrassment. Especially since Mr Reagan has made the restoration of America's international standing a cornerstone of his domestic political agenda.

"The nation's credibility and standing in the world is involved here," said Mr Robert Byrd, the next Senate majority leader, as he announced the membership of the special Watergate-style Senate committee which, together with a similar House committee, will take over primary responsibility for congressional investigations of the Administration's policies in Iran and Central America in the new year.

Even the members of those committees have been carefully selected to avoid the suggestion that anything other than national purposes are to be served. "There is not a bomb-thrower among them," said one Republican about the bipartisan committee. The chairman of the Senate Committee, Senator Daniel Inouye, is a shrewd but taciturn Japanese-American Democrat who has rarely appeared on US television.

It goes without saying that this self-discipline is rooted in a shrewd calculation of political realities. There is also a recognition that while Mr Reagan's problems present them with what one top Democrat describes as "a great opportunity," it is no more than that.

"The biggest mistake we could make," says former Virginia Governor Mr Charles Robb, the son in law of President Lyndon Johnson and one of a clutch of Democrats with presidential aspirations," is to view the Iran affair as a free pass to the White House. It does nothing to prepare the Democrats to govern."

Mr Robb's remarks came 10 days ago at a meeting in Williamsburg of the Democratic Leadership Council (DLC), a centrist pressure group in the party.

The Democrats' restraint has been based on a number of calculations. Most obvious is the party's desire to make common cause with those Republicans who share its alarm at the Administration's scorn for Congressional foreign policy prerogatives.

A crude partisan assault on a still personally popular Republican president would tend to fracture that — to Democrats —valuable alliance and could backfire with the American people.

There is also a longer-term perspective. In 1976 the Democrats inherited a presidency whose prestige had been weakened by the trauma of Vietnam and the Watergate scandal. Mr Jimmy Carter then struggled to persuade Congress to endorse his political priorities.

One of Mr Reagan's biggest contributions to his country has been to strengthen the institution of the presidency. A weakened presidency, says Mr Norman Ornstein, a political scientist at the American Enterprise Institute, a Washington think tank, would be "a prize not worth winning."

Mr Robb worries about the unresolved economic problems a Democratic president could inherit, problems which would look more daunting to an incumbent who lacked political clout. "We have got to deal with the (budget) deficit and we have got to deal with it on Ronald Reagan's watch."

As Democrats prepare to take control of both the Senate and the House when the 100th Congress convenes on January 6, they are well aware that their biggest challenge will be to demonstrate that they are indeed, as the new Speaker of the House, Rep. Jim Wright, put it at the DLC meeting, "prepared to govern, prepared to lead."

Mr Wright, an eloquent and cunning Texan, laid down the outlines of the Democrats' strategy in Williamsburg.

The House, he said, will introduce a trade bill designed to address the threat posed by America's falling international competitiveness. It would pass again a clean water bill Mr Reagan has vetoed. Mr Wright said he would put welfare reform on top of the Democrats' agenda and would "come to grips" with the challenging problems of American agriculture. The Reagan Administration's foreign policy will come under critical scrutiny in the special committee probing the Iran affair.

But to prove its fitness to govern, the party will have to narrow its generalisations and make choices about what detailed policies it wants to adopt.

That could trigger an outbreak of infighting between what Mr Ornstein describes as the Sunni and Shi'ite wings of the party, the old-style liberals and the new-style Democrats mustered around the DLC, which if it is not handled skilfully, could chip away at the image of decisiveness and competence the Democrats would like to present.

Through the 1960s and most of the 1970s, it was the liberals, with their emphasis on the role of government as a redistributor of wealth and guarantor of civil rights who dominated the party's thinking. Many would say they are still numerically dominant.

But their position has been increasingly weakened. Along with recently sluggish economic growth, President Reagan's budget deficits have meant, as he probably intended, that the Government's capacity to provide social services has been limited. As a result, the arguments of the New Democrats, many moving into leadership positions on Capitol Hill, have gained influence, even though they have still to resolve the key question of how they would fund new initiatives they favour.

Those grouped around the DLC share the view that the Democrats must re-establish themselves as the party of growth, not redistribution, must reassert a commitment to strong defence and must make sure that the party is not a prisoner of Washington-based special interest groups.

One sign of the extent to which the conservative agenda has gained influence came earlier this month. The retiring Speaker of the House, Tip O'Neill, an archetypal liberal who represents President John F. Kennedy's district in Massachusetts, signalled that influence in a series of speeches. During the first half of the decade, he said, the political debate about how deeply the federal government had been involved in the national economy had resulted in "a consensus that the 'hands on, fine tuning' approach of the '60s and '70s should be replaced by an 'arms length, cautious oversight approach' in the '80s and '90s."

Using the tax code as a vehicle for wealth redistribution, he indicated, no longer commanded wide support—"a significant change in approach by the most liberal party in the United States."

In the coming weeks and months the extent to which new ideas for tackling the country's problems are taking root will begin to appear.

The DLC, for example, argues that a bold attack on the budget deficit is essential, even if this means confronting voters with the need to raise revenues. It is resisting the idea that the defence budget should be looked to for major new spending cuts.

It is also resisting calls for simple protectionism, arguing that the focus must be on the competitiveness of the US economy, a notion which it links to new initiatives in management-labour relations.

Improving educational opportunities is a key feature of its approach to social welfare. Others include greater emphasis on "targeting" benefits to the poorest and providing incentives for those on welfare to work their way into jobs. The DLC is also backing consideration of "some form of national service, both civilian and military."

By tradition, it is the process through which a party's presidential candidate is nominated which shapes its political platform. That process will not be in full swing until early 1988. A recession before then could yet trigger a shift in the balance of power back to the liberals. So too could the revised timetable for primary elections, which could sew up the Democratic presidential nomination as early as March.

But Democrats are convinced that in spite of these uncertainties the political winds are blowing strongly in their direction.

Arts Council grants

Carrot and a stick for Covent Garden

By Antony Thorncroft

AS EXPECTED, Sir Peter Hall, director of the National Theatre, and Mr Terry Hands, the new chief executive of the Royal Shakespeare Company, reacted angrily to the news on Friday that the Arts Council was to freeze its grants to the two theatre complexes in 1987-1988. The National will get a stand-still subsidy of £7.8m, and the RSC £5.2m. In effect, this represents a 6 per cent cut in grant.

But neither Sir Peter nor Mr Hands levelled most of their criticism at the Arts Council: they blamed the Government for starving the arts of funds. The Arts Council has succeeded in the past two years in distancing itself from the Government. It requested £164m in grant for next year: it was awarded only £137.5m, a 3.5 per cent rise on the current year. The National and the RSC are the first victims in what seems certain to be a crisis 1987 for the arts.

The Government, and in particular Mr Richard Luce, Minister for the Arts, shows no inclination to waver from its avowed policy of maintaining its arts expenditure at a fixed level, with just minimal increases for inflation. Since the arts are a labour intensive industry — 75 per cent of Covent Garden's expenditure is on wages — a rise in grant of around 6 per cent would be needed to maintain subsidy at current levels. But the Government insists that any extra cash for the arts must come from other sources — from raising box office income or from sponsorship.

It can argue that its measures, especially the Business Sponsorship Inventives Scheme, have increased corporate sponsorship of the arts from less than £1m to over £20m in the past 10 years. It also points to the expansion of theatres (the RSC opened its own fifth auditorium, the Swan, at Stratford, this summer), opera and dance companies, and arts centres to prove its point that the arts in the UK are flourishing. And, for all the anguished cries, no major arts company has yet gone bankrupt.

At the Arts Council there is now more of a willingness to allow a substantial arts company to go out of business — if only to prove that it is no longer crying wolf over inadequate government funding. It would have to be a major client to initiate a big enough storm, and to release enough cash to benefit other arts organisations. The favourite stalking horse was Covent Garden, its biggest client, with a £13m grant in the current year and, significantly, no announcement was made about the Royal Opera House's aid for 1987-88 on Friday.

Covent Garden has mounted an internal investigation of its financial options, and future Arts Council aid will be linked to its findings. Before 1990 the opera and two ballet companies will be forced to leave Covent Garden for at least two years while the building is transformed.

A simple solution would be for Covent Garden to move temporarily into the Theatre Royal, Drury Lane, but the Arts Council may well prefer it to take up residence in Manchester or Birmingham, both poorly served by opera and dance, and link its subsidy to such a transfer. Guaranteed funding over three years, as a solution to Covent Garden's constant financial problems, could oblige the opera house to perform to the Arts Council's tune. With a new chairman, Sir John Sainsbury, arriving next year, and a successor to Sir John Tooley, its administrator, on the near horizon, it looks like a revolution awaiting Covent Garden.

A radical approach to Covent Garden will be of little benefit to Sir Peter or Mr Hands who face another year of scrimping and saving. The RSC is in the worse plight because its current season at the Barbican has been both a critical and financial disaster. It is operating at a substantial deficit and, with the Arts Council taking a tough line on clients who cannot balance their books, the RSC will be reducing its new productions in 1987 and also plumping for a safer repertoire.

The National Theatre, for all Sir Peter's Cassandra-type warnings, is enjoying something of a boom, in audiences and in reputation. It has also started to increase its revenue from sponsors. It, too, may save on future productions but, with Sir Peter going in 1988, no dramatic approach should be expected.

The Government has played the arts cleverly, perhaps too cleverly. Until now it has provided just enough subsidy to prevent closures but not enough to encourage complacency. This year it may have cut it too fine. The Arts Council is prepared to stand up to the Government more resolutely, and it is not being diverted from its long-term course of switching money from the big national companies in London to the regions. On Friday the regional arts associations were awarded the 3.5 per cent rise. When the regional theatre companies hear their grants in January there should be variations, with the better-administered and imaginative getting more, while other companies will be on stand-still.

The joker in the pack is the local authorities. This year they rallied round after the abolition of the metropolitan councils, and, with £25m pumped in by the Government, more than made good the arts spending that had been lost. Many local authorities have developed a taste for the arts.

But their enthusiasm may not please the Government too much, especially in Labour-controlled areas where grants could be linked to a political stance in the arts. In recent weeks Hammersmith Council threatened its £500,000 aid to the Lyric Theatre because it did not approve of the mounting of a South African play, even though it carried an anti-apartheid theme. By forcing the arts into the arms of local councillors, the Government could be building up a rod for its own back.

It does, however, have the ability to bring the Arts Council to heel if it thinks its current attitude too critical. In the spring Sir William Rees-Mogg retires as chairman. He has changed from seeming to be a government poodle to a strong advocate of subsidy. The choice of his successor will be the best indication of whether the Government can accept an Arts Council that identifies with an increasingly restive and straitened arts community, or whether it wants one that more occurately mirrors its anti-subsidy prejudices.

Letters to the Editor

EEC, Japan impasse

From Mr R. Moreland.

Sir, — Your editorial "EEC, Japan impasse" (December 15) contains the chilling proposition that "by treating Japan as an alien aggressor, Europe runs the risk not so much of isolating Japan, but of becoming more isolated itself." It also suggests that through a judicious combination of "determined multilateral negotiatons" and "better co-ordination of national macro-economic policies" appropriate solutions to Euro-Japanese trade "frictions" can best be found.

Of course, nobody would really doubt that Europe could benefit from closer political and economic ties with Japan, and that multilateral trade and monetary negotiations may prove valuable in this process. But your leaderwriter is deluding himself and many others if he seriously thinks that such an emollient approach is likely to offer the primary solution to the problem of Japan's massive and growing trade surpluses.

The US response, spurred by a $50bn bilateral deficit with Japan last year, far from confirming this suggestion (as your editorial implies), proves the exact opposite. The Americans have used their political and economic muscle to prise the Japanese market open bit by tiny bit, and even so they are rightly disappointed with the results. They have threatened and cajoled Japan in sector after sector, on a bilateral (not a multilateral) basis. They have negotiated new voluntary export restraints with Japan (which are inconsistent with GATT) and have struck market-sharing, price-fixing deals (as in microchips) which completely contradict the Reagan administration's and your own editorial's, free-trade philosophy. In short, they have dealt with the Japanese by playing tough, demanding results, and threatening a protectionist backlash if Tokyo fails to compromise.

It can be argued that Europe could not follow the same route, even if it wished to, because it lacks the strategic and industrial firepower of Washington in its trading relationship with Japan. Certainly, it is at a real disadvantage: that makes concerted action ever more necessary. Europe's strength, however, lies in its status as the largest consumer marketplace in the world (320m people) and one indispensable for Japan's export strategy, especially as the rise in the Yen forces that country's production up-market into ever more sophisticated high-technology goods. Europe must use that strength to its own advantage, rather than fall apart under the cover of its free-trade scruples. Editorials such as your own do not really help.

The Japanese are terrified of the implications of a selective Euro - protectionism at their expense, and not without reason. It would therefore be quite counter-productive at this stage for Europe to throw away its "get-tough" card in the interests of a more harmonious relationship. It would be especially dangerous to do so when Europe is suffering "export deflection" as the Japanese shift their sales drive from the American market to our own, and when massive Japanese capital flows risk overvaluing European currencies at a moment's notice, so rendering us less competitive still.

My suspicion is that the Japanese will respond with concessions to those they respect. Whatever else it is, a Europe which itself concedes first is unlikely to be a Europe the Japanese will respect.

Robert J. Moreland,
3 The Firs,
Heathville Road,
Gloucester.

Nation of rentiers

From Mr R. Nottage.

Sir,—You end your leading article "Two nations of rentiers" (December 13) by saying "the 21st Century pensions problem . . . will be easier for the UK and Japan than for others; we seem likely to enjoy foreign income just when it is most needed." This, I venture to think, is too simplistic a view of the matter.

Before reaching such a verdict account must be taken of the limitation in real investment in British industry which must follow from the degree of portfolio investment needed for the funding of pensions on the scale thought necessary by British Governments, especially when that portfolio investment is undertaken abroad.

It must also be remembered that Britain's European competitors have pensions systems that do not involve funding on anything like that scale; and in the last 25 years those countries have outstripped Britain in economic performance by a wide margin.

It is not impossible, therefore, that in being one of the world's leading rentiers Britain is further weakening its economy, with the result that its national standard of living will fall further behind that of its European neighbours. Such a development will surely not be to the advantage of most of the nation's pensioners in the 21st Century.

Raymond Nottage,
36E Arkwright Road, NW3.

Moves at the RIBA

From the Honorary Treasurer, Royal Institute of British Architecture

Sir, — Colin Amery's profile (December 10) of Rod Hackney, the newly elected senior vice-president of the RIBA, is misleading on a number of important matters.

The institute has tackled the professional indemnity problem by setting up its own company this year to stabilise the market and to reduce the vulnerability of the profession to claims. With the benefit of evidence from feedback and income from the scheme, practices will be helped to improve their performance.

RIBA council has tackled the future of the RIBA drawings collection. Colin Amery may not like council's decision, but it was only reached after extensive consultation, careful analysis, and considerable expenditure of energy and money in order to reach a unanimous decision from council to reunite the drawings with the Library in Portland Place, as the headquarters is to develop to become a centre for architecture. The categorical statement is made that the drawings collection "will not now be returning to the RIBA." It is RIBA council which will decide this and it would first have to revoke its unanimous decision.

It is stated that the Group of Eight is to be renamed. This is an irresponsible statement for it is not in the power of any president or individual member of the present Group of Eight to decide this. Larry Rolland, the present president of the RIBA, will lead the Group of Eight until July next year and will, no doubt, be meeting his colleagues to discuss this claim, the membership of the group, and other matters.

With regard to senior staff: the drawings collection curator has resigned; the director of public affairs has stated that he wishes to leave by mutual agreement early next year, and two editors of the Architect (which has had financial difficulties) have made similar decisions. This means that over a period of some 15 months four senior staff will have left. Hardly "one a month" as stated in the article.

In the midst of wide interest caused by this election for senior vice-president/President Elect, one can forgive some journalists unfamiliar with the construction industry and the RIBA making these mistakes, but not Colin Amery.

(Mrs) Noel J. Wurr,
66 Portland Place, W1.

Discrimination at work

From the Chairman, Campaign for Equal State Pension Ages

Sir,—the organisation I represent would certainly welcome a Bill of Rights in Great Britain if it incorporated—and it is inconceivable that it would not —an anti-discrimination clause on the lines of that included in the United Nations International Covenant on Civil and Political Rights or in the European Convention on Human Rights.

If we had had such a Bill in 1940, differential state pension ages would never have been enacted. Indeed there would not even have been any pressure for such legislation.

Nor could, or would, Parliament have enacted, only as recently as last year, the shameful section 93 (7) of the Transport Act, which allows local councils to subsidise bus passes for women at 60, but for men not until 65.

David Lindsay,
36, Orchard Combe,
Whitchurch Hill,
Reading, Berks.

Taxes and production

From Mr D Forth

Sir,—I was interested to read (December 16) that a leading academic economist has found that tax cuts do not encourage employees to work harder or longer. In my own case, I am encouraged to work harder by the prospect of a bonus payment at the end of the year. The value of that bonus to me is directly affected by the rate of tax.

High rates would reduce it to a token value, with a corresponding effect on my work input. Alternatively, if my employer wanted to make the bonus up to a worthwhile amount, high taxes would increase the cost to him, and ultimately to consumers, who buy his products.

It seems obvious to me that lower personal taxation leaves more wealth for both sides of the labour market to share between them. (As a side effect, it leaves less money to the public sector to waste, too.)

David Forth,
69 Turney Road, SE21.

FINANCIAL TIMES

Monday December 22 1986

Roderick Oram on Wall Street

Best paid: the well kept secret

KEEPING secrets about other people's money may not look like Wall Street's strong suit at the moment, but in this season of seven-figure bonuses, the ability to keep mum about its own money remains firmly intact.

It takes a lot of digging to discover how well Wall Street is rewarding itself for a year of record profits. Rigorous disclosure rules do not reach into so personal an area as stratospheric pay scales.

Ferreting out the 100 best-paid people on Wall Street took four journalists at Financial World several months earlier this year. It was one of the toughest stories it ever cracked, the New York magazine said.

Collectively, the 100 earned $1.2bn in 1985. Top was Mr Ivan Boesky, the insider trading arbitrageur with around $100m. Bottom was Mr Guy Wyser-Pratte, chief of arbitrage at Prudential-Bache Securities with $3m, the magazine said.

Rich were the deal-makers and those working for their own small firms – 43 of the 100 were investment bankers, 19 money managers, 12 leveraged buyout specialists and 11 arbitrageurs. The remainder represented a cross-section of Wall Street's other skills.

But the rewards, harvested at this time of year in performance-related bonuses, spread far down the industry because salaries typically account for only between one-third to one-10th of total remuneration.

Wall Street has a juicy pie to divvy up this year with pre-tax profits totalling an estimated $5.7bn against the previous record of $4.1bn in 1985. The first quarter was the best with bond prices rallying spectacularly while the second quarter was the worst with Wall Street paying the consequences of "negative convexity."

This painfully expensive glitch in the yield curve occured when mortgage-backed securities failed to join the rally. Further red ink was spilled in the May Treasury refunding when the Japanese cornered the long bonds.

The fourth quarter was a mixed blessing. Wall Street's reputation was damaged by Mr Boesky and arbitrageurs lost an estimated $2bn. But mergers and acquisitions (M&A) rocketed to push the full year's value well above 1985's record $180bn.

In this great game, money is the scorecard for firms and – more privately – for individuals. Morgan Stanley ran a three-page newspaper advertisement last week to tell of the $68bn of M&A business it did worldwide this year. But it was not so keen to talk about how it rewarded its M&A team.

Year-end bonuses of $10m will not be uncommon for some of the industry's leading M&A individuals this Christmas, believes Mr Perrin Long who follows the industry for Lipper Analytical Services. Counting all skills on Wall Street, perhaps 100 employees will receive $1m-plus bonuses. Entrepreneurs, many of whom made the Financial World list, will do even better.

At the other end of the scale, some neophytes will have earned a total of $100,000 in their first year, explaining in part why 25 per cent of Harvard Business School's class of 1986 ended up on Wall Street compared with 10 per cent eight years ago. In contrast, manufacturing attracted only 15 per cent against 30 per cent.

Bonuses are a win-win situation. Success is rewarded while failure is not punished. Most big firms will find some money in the general pool for people such as arbitrageurs who are down on their luck. "We seek an integrated effort so people don't think in terms of profit centres," said one firm's Santa Claus.

A sharp distinction is apparent, however, between Wall Street professionals and their support staff. Professionals' bonuses are individually calculated and a well-kept secret while staff bonuses are uniform and often made public.

Curiously, professionals are said to be rather reticent among themselves about their individual gains. "We discourage discussion," a chief bonus fixer said.

Perhaps this main sign of success is conveyed through nods and winks in elevators or enigmatic smiles in executive dining rooms. Such a tacit approach is easier on at least the poker-faced among the under-rewarded.

One analyst of Wall Street firms explained: "While individuals will talk about who they're sleeping with, they won't normally talk about how much money they're making."

Michael Dixon looks at UK efforts to prise open door of education reform

Hard lessons on road to change

THE BURNING barricades in Paris streets televised worldwide this month must have been viewed with relief by members of the British Government. Like their French counterparts, two years ago, Mrs Margaret Thatcher's ministers had to turn tail over reforms to higher education. However, the middle-class revolt which forced them to cancel increased charges for students triumphed peacefully through Parliament and not the streets.

The UK Government is about to try again, underterred by the humiliation suffered by Mr Jacques Chirac, the French Prime Minister, at the hands of France's students.

The immediate pretext lies in the hoary dispute over teachers' pay and job conditions which, in England and Wales, has disrupted state schools for several successive years.

For a long time the Government let the trouble go on without apparently losing much popularity. Then the unions threatened not only to disrupt the education of children of all ages but also to wreck public examinations for 16 and 18-year-olds. That set the Conservatives' popularity tumbling and, with a general election approaching, Tory backbench MPs began clamouring for action.

Normally, the Education Secretary has remained on the sidelines in disputes between teachers' unions and the local authorities, which are the school staff's direct employers. On this occasion Mr Kenneth Baker has jumped into the fray.

He has taken the historic step of spelling out the job conditions he thinks teachers ought to accept in return for a 16.4 per cent aggregate pay rise over two years.

The dispute, in other words, is being used as a crowbar to prise open the door to education reform.

Mrs Thatcher wants to achieve greater variety in the schooling offered by the state system, especially at the secondary level. The system her Government inherited from its Labour predecessors was dominated by the comprehensive principle that all children should attend the same kind of secondary school, whatever their abilities.

The Conservatives believe the present almost fully comprehensive system tends to submerge rather than identify and develop outstanding talents, not only the academic sort but also practical abilities for such activities as design and engineering. Ministers, therefore, wish to roll back the comprehensive principle and set up more specialist secondary schools.

Britain's constitutional procedures have so far proved efficient at preventing unpopular change in education. The trouble is that they have also proved unable to achieve changes, however much the public wants them.

To take one example, popular "Amens" have consistently greeted successive education secretaries' calls for recruitment of more science teachers to equip children for an ever more technically demanding society. Just as consistently, however, schools' shortages of specialists in those subjects have worsened.

Mr Baker's proposed conditions for this year's settlement would, among other things, allow local authorities to offer extra pay to teachers of maths, physics and technology to counter shortages in these departments.

One reason why UK public education seems constitutionally incorrigible was aptly pictured by Sir Herbert Andrew, the Education Department's top official in the 1960s. He likened the service to a supertanker with a rubber tiller: just about steerable but incapable of any marked change of direction.

He was oversimplifying, of course. A truer image is of an armada of about 25,000 vessels

Britain's constitutional procedures have so far proved efficient at preventing unpopular changes in education. The trouble is that they have also proved unable to achieve changes, however much the public wants them.

(schools, universities and colleges), from stately to ramshackle, most attached to over 100 different fleets (local authorities). A minority – the universities – belong to no one.

Each establishment has at least one captain aboard, usually but not always answerable to the relevant fleet headquarters. But there is no High Admiral, so members of the fleet are not always heading in the same direction.

Central Government, in the person of the UK's Education Secretary, has hardly any detailed control over the service. He is fended off from universities by the University Grants Committee (UGC). Although Government decides how much taxpayers' money should go to the universities as a whole, the UGC decides how the total is to be distributed among the individual institutions.

Much the same applies to the bulk of the money for state-financed schools, polytechnics and further education colleges. For those in England, Wales and the Scilly Isles, the distributing and supervising bodies are 105 local education authorities. Scotland and Northern Ireland have separate arrangements. Nevertheless, the detailed activities of all educational establishments are decided to a far greater degree than in most countries by the heads and teachers of the individual institutions.

The ensuing hotchpotch is officially called "a national service, locally administered." The reality is somewhat different.

To take another example, local education authorities are nominally free to make changes. In reality they have to contend with various teachers' unions which are organised nationally. It would be brave, if not foolhardy, local authority which took on the big unions alone.

Conversely, if the teachers' bodies tried to enforce changes they could be stymied by the Education Secretary. So where important reforms to the £16bn-a-year service are concerned, the only power anyone has is to prevent them.

Why Britain's public has tolerated the muddle for so long is unclear. It may just be indifference, it could be the sheer complexity of the issues, or perhaps a combination of both.

Within the past few weeks, however, Mr Baker has indicated that central Government's tolerance is nearing an end.

Unless the combination of conditions and pay rise is voluntarily accepted by about February, Mr Baker will impose it by law.

He is abolishing the machinery by which schoolteachers' salaries have been negotiated between unions and local authorities, and replacing it by an "interim" advisory committee on pay and conditions reporting directly to his office.

Britain seems poised to move towards a more uniformly directed education service of the sort existing in most other countries.

Gatt fails to agree programme

BY WILLIAM DULLFORCE IN GENEVA

MEMBER COUNTRIES of the General Agreement on Tariffs and Trade (Gatt) have failed to agree on a programme for the global trade-liberalising tal... agreed at last September's meeting in Uruguay. They will try again in the second half of January to prepare a schedule ready for negotiations to start at the beginning of February.

After missing the December 19 deadline set by trade ministers and after three all-night sessions at the headquarters of Gatt, the international organisation which governs world trade, delegates on Saturday broke off their efforts to unravel a knot of disagreements over the organisation and timetable for the talks.

But officials were at pains to deny *that the Uruguay Round*, heralded as the most ambitious attempt yet to expand free trade, was in crisis before it had properly started. Agreement was near enough on most issues to make it likely that the programme would be completed before the end of January, Mr Arthur Dunkel, Gatt's director-general, said.

Informal consultations will resume in Geneva on January 19, the body coordinating negotiations on trade in goods will convene on January 22 and the top Trade Negotiations Committee is scheduled to meet on January 26 to ratify the programme.

Tran Van Tinh, chief negotiator for the European Economic Community (EEC) emphasised that the discussions had not broken down and no tempers had been lost. He was confident that compromises could be reached so that pieces of the final package could be fitted together in January.

At the heart of the blockage is the US desire to obtain swifter action on some items, such as reductions in farm trade subsidies, than on others. This is opposed by the EEC, which wants measured progress on all fronts rather than having its Common Agricultural Policy singled out for the onslaught of the US and other agricultural produce exporters.

Other countries worry that in order *to appease protectionist sentiment* in the new Congress, the Reagan Administration may baulk progress on items of special interest to them. Their doubts are fuelled by reports that the Administration, in seeking authority to negotiate in the new round, will co-operate with Congress over a new trade bill.

Some developing countries fear that the US plans brazenly to breach commitments made by ministers in September to introduce no more protectionist measures and to start eliminating existing measures inconsistent with Gatt. They cite recent US actions to impose a levy on *oil imports* and to force European machine tool producers to restrain exports to the US.

Discussions over the programme finally foundered on Saturday over the authority to be accorded the Group on Negotiations on Goods (GNG), the body to which trade ministers had assigned a co-ordinating role in their declaration launching the Uruguay Round at Punta del Este in September.

The EEC and other countries want the GNG to have the power to intervene, to ensure that all subjects under negotiation move in concert. The US would denude the GNG of any real authority, preferring to retain the flexibility of letting each negotiating group move at its own pace.

Another strand in the knot that has to be untangled next month concerns the content and time limits for the first phase of the agricultural talks.

The EEC has stuck to its position that talks in 1987 should concentrate on identifying the problems and considering how to eliminate huge surplus stocks of cereals, meat and dairy products.

Another problem which remains to be settled is the organisation of 14 subjects, ranging from further tariff commitments to such "new" issues as intellectual property and investment into a feasible number of eight to 10 negotiating groups.

UK Alliance strikes up the band

By Peter Riddell in London

BRITAIN'S SDP/Liberal Alliance will be striking up the band next month at the launch of its pre-election campaign to regain the ground lost during last autumn's squabbles over UK defence policy.

The Alliance, with the help of a brass band, will be unveiling a new theme tune (a closely guarded secret) at the start of an intensive 10-day publicity drive, the centrepiece of which will be a rally in London, the first of members from both parties since the Social Democrats and Liberals formed their Alliance.

The events will also include the unveiling of a new Alliance livery (purple) and a redesigned logo, together with an unprecedented two party broadcasts within a week. A number of policy statements and an Alliance team for government will be announced.

Alliance leaders hope that this campaign will help to give momentum to their opinion poll ratings ahead of the local elections in May and a possible general election during 1987. They believe that their poll standing has now bottomed out, and may even start to pick up, following the sharp decline after the divisions at the Liberal Party's annual assembly three months ago.

Many Labour Party leaders are, however, feeling battered and depressed at the start of the Christmas parliamentary recess. A weekend poll which put the Conservatives 8½ percentage points ahead of Labour, is widely regarded as an exaggeration, although most politicians acknowledge that the Conservatives have established a clear lead in recent weeks.

Labour MPs fear that the party has been forced on to the defensive *over nuclear defence and the MI5* spy book case, and they are worried that the Goverment may be winning the initiative on the economy in view of the declining unemployment figures.

The mood among Conservative leaders is naturally highly confident at present, although there is concern about the impact of a possible Alliance revival in key marginal seats.

The Alliance drive will be aimed at re-establishing credibility with a series of policy documents, including a revised "Partnership for Progress" statement of themes and an economic strategy document.

These papers will set out the broad approach rather than details, partly in the hope of avoiding the row over the publication last August of the SDP's heavily redistributive tax and social security proposals. These have now been revised to be phased in over five years, although no details will emerge until after the Government's budget next spring.

The other key feature of the Alliance campaign will be the announcement of the team for government, or election spokesmen.

Bitter vigil by Chinese students

Continued from Page 1

your eyes. 'We are being suppressed. Maybe the police will come and break us up but the Chinese people will not be slaves."

Around 3,000 students from Jiatong University then marched from People's Square towards the state-run Shanghai Television station and they are demanding a television debate on the topic of freedom.

They have four main demands of the City Mayor, Jiang Zemin: democracy, press freedom, legal support for the street marches and a guarantee of no reprisals against the protesters. The last two have apparently been granted. Last night the student banners were making a fifth demand: action against police responsible for assaults on protesters.

Students I talked to last night were elated that their protests were making the front pages of newspapers around the world but disappointed that their comrades in other cities had not responded and put extra pressure on the Government.

Many were also vague in interpreting democracy. Some said they wanted student monitors to be chosen by the student bodies instead of the university authorities. Others wanted an end to the privileges granted to the children of senior party cadres. Many have clearly not thought about their aims but are finding the rare exercise of protesting a thrill.

The success of the French student protests in Paris was widely reported in the Chinese press and reported by the BBC World Service and Voice of America, whose broadcasts are no longer jammed

World Weather

		°C	°F			°C	°F			°C	°F			°C	°F
Ajaccio	C	12	54	Dubrovnik	R	4	39	Malta	F	13	55	Rhodes	F	10	50
Algiers	S	17	63	Edinburgh	F	4	39	Manchester	R	5	41	Rio de J'o	C	33	91
Amsterdam	F	5	41	Faro	C	15	59	Manila	S	31	88	Rome	F	7	45
Athens	F	13	55	Florence	S	2	36	Melbourne	C	19	66	Salzburg	F	2	36
Bahrain	S	19	66	Frankfurt	F	3	37	Mexico City	S	23	73	San Francisco	F	7	45
Bangkok	S	31	88	Funchal	S	19	66	Miami	C	18	64	Seoul	C	4	39
[illegible]															

Readings at mid-day yesterday: C-Cloudy D-Drizzle F-Fair Fg-Fog H-Hail R-Rain S-Sun Sl-Sleet Sn-Snow T-Thunder

Opec pact may raise prices

Continued from Page 1

reduced to between 120,000 and 130,000 from the full potential of 500,000 b/d. Last week Saudi Arabia is understood to have told Iraq that the restriction would have to remain in force until April.

With the engineering work believed to be complete, the restriction now appears to be a politically motivated one imposed because of King Fahd of Saudi Arabia's displeasure over Iraq's refusal to accept any quota unless given parity with Iran.

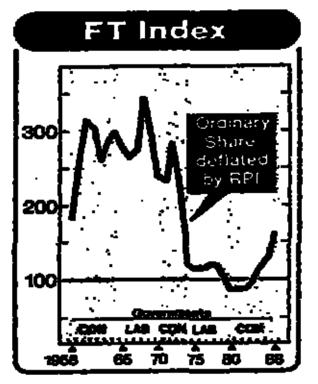
Relations between Riyadh and Badhdad are said to have been badly strained by the issue

THE LEX COLUMN

Labouring over lost innocence

Sound and fury is one thing, real intentions another. Though the Labour Party has been making hay in the House of Commons with the mounting sequence of insider scandals – what opposition could resist the temptation of Mr Channon's predicament in the Guinness affair – in a quietly deliberate way Labour seems to have been purging its traditional suspicion of the City of London to judge by last week's seminar at the Society of Investment Analysts. Labour's present Shadow finance team is more comfortable with the City, and even with its unruly internationalism, than are many Conservative backbenchers.

FT Index



Superiority

The way that this sense of equilibrium has been achieved is not, however, something that at first glance seems likely to make the City feel equally at home with Labour. What has happened, through the long course of the financial services legislation, is that the moral superiority Labour has felt towards City values – often with the strongest possible reason – has been transformed into an attitude which verges on contempt for City competence, particularly when the City is forced into rather paradoxical activity of regulating itself.

Labour's unfamiliar air of confidence thus springs to a geat extent from the undoubted fact that the financial services industry has lost the political initiative, and will not easily get it back. In the public mind, the onus is on the financial community to prove that it is clean; the legal benefit of doubt, which has made it so hard to prosecute fraud for want of hard evidence, does not provide the City with as good an umbrella as in the days before Lloyd's, before the Collier affair, before Boesky.

One thing that the City therefore *has to discount, among the probable* consequences of a possible Labour victory, is a fully statutory basis for the regulation of investment business. The legal standing of the SIB would rapidly approximate to that of an SEC, and it would clearly be required – on lines advanced by Mr Bryan Gould – continually to turn over the most respectable cornerstones of the City; simply making an example or two at the beginning of the new era is not regarded as enough.

At a period when the DTI has five major investigations roaming the City, and is even scrutinising the Monopolies Commission and the OFT for signs of insider trading, the practical effect of such a change might not be easy to detect. It would be more a matter of form than of substance. Mr Channon is perhaps not the most convincing mannequin for Labour's new-style pinstripe – the policies are scarcely made to measure; but the clothes, if not the swagger, have been stolen.

Inequality

Indeed, the City is probably a great deal readier than it was three months ago to agree with Mr Gould that it is a competitive necessity, not a bothersome distraction, for London's markets to be seen to be straight. Those who have already made their pile may even be ready for Mr Hattersley's appeal to their finer guilt-feelings about inequality. The hair shirts are not yet on order, and it is perhaps overdramatic to *see credit ratings eroded, liquidity* evaporating, if the atmosphere of scandal were to spread; but once again, it is good business to be good.

For the rest, Mr Hattersley is no doubt optimistic when he sees himself as the first incoming Labour Chancellor to preside over a capital inflow and an upward run on the pound; nor is it clear, given the fuller-employment objective, why he has that ambition. But the City – as distinct from the real economy – can have little to fear from the threefold plans of repatriating portfolio investments, turning British Telecom into a gilt, and setting up a National Investment Bank.

Unlike the tight money and high interest-rate policy which ushered in the recession five years back, there is nothing here which threatens any fund with capital loss. Renationalisation of BT and the others is suitably discounted – as can be seen from the lurching share price when the polls inch towards Labour – and Mr Hattersley is not too far from the truth when he says that the excess return to putting pension fund money overseas has not amounted to much.

Stagflation

Of course, it offends the professional *amour propre* of fund managers to be told where they can put their pensioners money. The removal of tax benefits from trusts with explicit overseas investment objectives does seem to infringe the principle that legislation should not be retrospective: specialist Japan funds, for example, would have some difficulty in explaining why they had diverted the punters' money to the new NIB for investment in Accrington.

Mr Hattersley's assertion that international diversification of portfolios brought no benefit seems, moreover, to rest on the crudest conflation of risk and reward. If the UK cannot be trusted to deliver super-normal returns (measured in sterling) it cannot be right for a prudent manager to put all our nest-eggs into that one basket.

Even with targeting of direct investment to the most labour intensive and least import absorbing projects, *it is over-sanguine to expect* the UK economy to deliver all the goods, and services, that a greying population will want to consume at the turn of the century. On past form, we all ought to require a variety of hedges against the possibility of renewed, and maybe terminal, stagflation.

SECTION II – COMPANIES AND MARKETS
FINANCIAL TIMES
Monday December 22 1986

INTERNATIONAL PRIMARY MARKET ASSOCIATION

Watchdog's approach under strain

EUROBOND issuing houses have been finding it increasingly difficult to achieve smooth syndication of new bonds this year as the market has struggled to absorb a huge supply of issues, writes Clare Pearson in London.

The unconventional methods of syndication to which lead managers have consequently resorted have brought into the spotlight the role of the International Primary Market Association (Ipma), the watchdog of the primary market.

The spirit of Ipma, a trade association grouping 55 leading houses, is that the new issues market is a club made up of professionals who deal only with each other and ought to be able to reach a consensus on how business should be conducted. But this collegiate approach is increasingly under strain because of the proliferation of currency sectors and growing competition in the Eurodollar market.

These are challenges which will face Mr Armin Mattle, managing director of Union Bank of Switzerland (Securities), who last week assumed the chairmanship of Ipma, effective January 1. He takes over from Mr John Sanders, formerly of S. G. Warburg and recently appointed to head Orion Royal Bank, who stepped down after holding the chairmanship for the two years of Ipma's life.

Ipma's very status could be thrown into question as Britain introduces a new investor protection framework which will regulate the Eurobond market for the first time. Under the UK plan, the Association of International Bond Dealers (AIBD) is to become a recognised investment exchange operating the Eurobond market.

Ipma, however, is independent of the AIBD, which covers the secondary market, although it originally emerged as an offshoot from an AIBD committee. Ipma does not make rules, but only recommendations which are arrived at by a unanimous vote among members. It has no power of sanction, and the recommendations are its only public acts.

If the AIBD carries out its plan to become a recognised investment exchange, it will be awkward for the primary market not to follow. The current expectation is that Ipma would continue to exist, but as a recommendation-making body within the AIBD.

One of the most divisive problems that Ipma has tackled this year has been that of "nil allotment syndication" – the practice of inviting a number of co-managers into a deal who will not in effect be called upon to distribute the issue, since it is in reality a private placement.

Ipma's concern is that the appearance of "name-only" syndicate members on syndicate lists misleads the investor by creating a false impression of liquidity.

Such syndications have become increasingly common with the rise of the Japanese houses, which have generated a large number of issues that have never traded widely but channelled back to investors in Japan.

But US houses have also brought in co-managers on a no-commitment basis. This has been common in swap-related deals, where the house that supplies the swap counterparty may have no natural placement for the bonds, and as a last resort in mispriced deals.

In July, Ipma produced a recommendation deploring the practice which seems to have had some effect as a deterrent. Japanese placements, for instance, generally have much smaller syndicates than they used to. But it is an open secret that the practice has by no means been stamped out, and Ipma has been working on a more forceful recommendation for some months. The basis is likely to be that the "tradeability" or otherwise of an issue should be made clear from the outset.

It is particularly difficult to arrive at an appropriate form of words because of the problem of distinguishing between intentional and unintentional nil allotments. For instance, a lead-manager may misprice a deal and find that it is dumped back on his books, against his will, by the co-managers.

Alternatively, a lead-manager simply does not know where an issue will be sold. The house will then allocate a proportion to co-managers who later find they cannot place it. Yet this does not necessarily mean it is not traded elsewhere in the syndicate.

Another problem recently addressed by Ipma has been worry among underwriters that a lead-manager enjoyed too much scope to manipulate co-managers' risk during syndication. This was because he was able to keep co-managers in the dark for an unlimited number of days about the size of their commitments.

The recommendations include limiting final allotment periods to a maximum of three days after invitations are sent out and tightening provisions on protection (the assurance to a co-manager that he will receive delivery of a certain amount of the issue he has undertaken to underwrite).

In general, Ipma's solutions on this problem, which it put forward at the end of October, have proved satisfactory to the Eurodollar market. Early allocation is important for Eurodollar bonds because of the volatility of the US Treasury market, in which positions are hedged.

But the recommendation on allotment produced howls of protest from houses specialising in other currency sectors, such as the Australian dollar.

These houses claimed that the recommendation is irrelevant on market risk grounds in the smaller sectors dominated by retail investors because these do not move with the underlying domestic markets.

Australian borrower taps Euromarket

AUSTRALIAN Industry Development Corporation has become the first Australian borrower to arrange a medium-term note programme in the Euromarkets as part of a $1bn Euro-commercial paper programme, writes Alexander Nicoll in London.

The borrower is following the pattern set by its compatriot the Australian Wheat Board on a recent Euro-commercial paper programme by arranging the deal itself. AIDC, which is replacing and expanding a previous $500m programme, will itself act as a dealer along with five investment banks.

Awards of mandates for medium-term note programmes are expected to speed up shortly.

Among other Euro-commercial paper programmes signed up as the year-end approached were $200m for Rural Banking and Finance Corporation of New Zealand, arranged by Samuel Montagu, $200m for Sparekassen Bikuben mandated to Chase Investment Bank and Merrill Lynch Capital Markets and $75m for Leucadia National Corporation with Merrill Lynch as sole dealer. Sweden's Alfa-Laval appointed Enskilda Securities and Morgan Guaranty as dealers for a $100m programme.

National Home Loans Corporation has increased its tender panel loan facility, arranged by S.G. Warburg, from £200m to £300m, and Michelin's credit, arranged by Warburg and Banque Paribas, has been expanded from $100m to $125m.

Faellesforeningen for Danmarks Brugsforeninger, a Danish supermarkets concern, is raising a $50m five year loan led by Chase Manhattan at 10 basis points over London interbank offered rates, with front-end fees ranging up to 8 basis points.

A one year facility for Ziraat Bankasi of Turkey, carrying a margin of ¾ percentage points above London interbank offered rates, was increased from $150m to $200m.

Renault considers move into Brazil

By Ivo Dawnay in Rio de Janeiro and Paul Betts in Paris

RENAULT, the French state-owned vehicles group, is considering a move into Brazil in the wake of the recently-announced merger of the Brazilian and Argentinian operations of Volkswagen of West Germany and Ford of the US.

The French group is looking for ways to protect its car market leadership in Argentina as the trading barriers between that country and Brazil are removed.

However, Renault stressed it had not made any final decision and it was still not even certain that it would set up in Brazil.

According to reports in Rio de Janeiro, however, Renault plans to open a components plant in a joint-venture with Brazilian companies.

The reports suggested the company aimed to use cheaper Brazilian labour and raw materials costs to supply its assembly plant in Cordoba, Argentina. In return, Renault's Argentinian factory would send its Trafic van and Fuego coupe car to the Brazilian market, both in kit and built-up form.

The new component plant is expected to be located in the industrial suburbs of São Paulo.

Mr Jacques Ramondou, president of Renault Argentina, was reported to have confirmed the plan. "Renault intends to take advantage of the incentives offered by the Brazilian Government to gain economies of scale," he was reported as saying.

Under protocols recently agreed between Argentina and Brazil exchanges of products – formerly heavily restricted – will be encouraged, though as yet only on a closely-monitored dollar-for-dollar basis.

INTERNATIONAL BONDS

Jumbo Euroyen deal for Denmark tops record

BY CLARE PEARSON IN LONDON

DAIWA EUROPE made sure that a turbulent year in the Eurobond market was to end with a bang not a whimper on Friday when it launched a "jumbo" Y130bn deal for Denmark.

The issue outstrips the previous record Euroyen deal for Canada, led this spring by Nomura, by Y50bn and it was hailed as a landmark in the development of liquidity in the Euroyen sector.

Denmark has borrowed heavily in the Eurobond market this year, often on aggressive terms, so that the advent of a further issue was greeted initially with some cynicism. In the event, however, it seemed to go down well with investors virtually across the board. It was, indeed, increased from an original issue size of Y100bn.

Viewed as a five-year bond, the return on Denmark's issue looked low compared with outstanding sovereign-backed paper. With an issue price of 101¾ it carried a slim coupon of just 5¼ per cent. The day before, a five-year deal for the European Coal and Steel Community was launched with a 5¼ per cent coupon and 101½ price.

But Daiwa added an inspired twist to the issue when it made it both "callable" and "puttable" after three years. By so doing it created the only new issue in the Euroyen sector ever to be launched with an effective three-year life. This filled a huge gap in the market because outstanding three-year Euroyens are few and far between and are mostly trading at huge premiums.

Daiwa kept most of the issue to itself. It appointed five co-lead managers: CSFB, Yasuda Trust, Morgan Stanley, Swiss Bank Corporation International and Sumitomo Finance, each receiving Y6.5bn each. There are additionally fifteen co-managers all with fairly small tickets.

It is clear that the bulk of the investors in the bond will be Japanese. This is unusual because a substantial amount of buying in the Euroyen market has traditionally come from European investors. But domestic investors have started to look at the market as its liquidity has built up.

The Euroyen market lags movements in the Japanese government bond market substantially, so as domestic money market and government bond rates have fallen in anticipation of a further discount rate cut Euroyen returns have been looking increasingly attractive. This yield gap underpins demand for Denmark's offering.

The Japanese are far more inclined to view an offering by Denmark as straightforward sovereign risk than Europeans who are mindful of how frequent a Euromarket borrower Denmark has become.

Nevertheless, European investor demand was not lacking on Friday, according to at least one co-lead manager. Although European investors are not generally optimistic about the long-term prospects for the Euroyen market following the US/Japanese exchange rate accord, the hope of lower interest rates in the spring is keeping some nibbling demand going.

Denmark is using some of the proceeds to redeem four older and more expensive yen bond issues raised in the Samurai market, thus achieving a saving on interest payments of almost two per cent annum. It is using the remainder of the proceeds for general foreign currency needs.

Apart from Daiwa's deal, the new issues market was virtually closed last week, with a thin trickle of deals emerging. In these, jostling for position in the league table ladder seems to have played its part.

Merrill Lynch raised some eyebrows in the floating rate note (FRN) sector by launching a perpetual issue for Republic National Bank.

The timing seemed less than propitious given that the market fell apart at the seams only a few weeks ago. Merrill was confident, however, that because the bond offered investors the prospect of a put option once they had held it for 25 years they would lay aside reservations about purchasing a perpetual.

The D-Mark sector traded thinly although the upward revision of the Bundesbank's money supply target on Thursday created a new factor for dealers to mull over.

In Switzerland, prices finished up to ½ point higher on the week in high volume. General Motors' recent SFr 165m 5 per cent bond closed on Friday, its second day's trading, at 101¾, up ¾ on the day.

But BMW of North America's SFr 60m 10-year 4¾ per cent private placement, priced at 100¾, struck the market as aggressive. It seems to be priced in a hope of a stronger market in January.

Banque Paribas (Suisse) said on Friday that nearly 96 per cent of holders of People Express's convertible bond, which Texas Air has offered to buy back at 65 per cent of its nominal value, had accepted the offer. The bond was quoted at 56.

EUROMARKET TURNOVER
Turnover ($m)

Primary Market	Straights	Conv	FRN	Other
US$	4,813.3	172.5	1,510.3	3,809.4
Prev	4,283.3	133.9	3,728.9	3,199.0
Other	3,341.2	8.7	5.7	105.0
Prev	1,460.4	—	252.1	199.2
Secondary Market				
US$	28,576.1	1,477.7	17,815.2	8,127.5
Prev	29,421.1	1,302.2	27,204.4	5,967.6
Other	12,180.0	182.6	2,718.3	5,471.3
Prev	12,144.4	156.2	2,650.7	6,590.1

	Cedel	Euroclear	Total
US$	19,984.0	44,118.4	64,102.4
Prev	19,137.1	55,503.3	74,640.4
Other	10,540.2	13,434.6	23,974.8
Prev	9,785.1	13,458.0	23,243.1

Week to Dec. 18, 1986 Source: AIBD

UK GILTS

Happier spring in prospect after Opec accord

SEVERAL FAVOURABLE factors seem to be stacking up for UK Government bonds, not least the weekend accord on oil output and prices in Geneva, which could set the tone for a happier spring after all the gloom this autumn.

In spite of the inevitable doubts cast on the agreement by the power games of Iran and Iraq, initial reaction to the agreement by the Organisation of Petroleum Exporting Countries appears to have been warm. This, of course, is crucial for sterling's prospects over the notoriously difficult month of January.

With the backing of a workable Opec accord, there is no reason why the tradition of the January sterling crisis should not be broken. The pound's ragged reputation abroad has so often kept overseas investors away but now they may be persuaded to come to the spring sales and the substantial inflation premium built into gilt-edged yields may start declining.

The Bank of England obviously had an eager eye on all those large foreign funds on Friday when it announced the first new index-linked stock since February, 1985, and added a tax-free bonus for overseas investors.

The Government Broker's announcement came as something of a surprise, particularly after last week's excellent Public Sector Borrowing Requirement figures for November which suggested that the authorities' funding programme could be very light indeed for the rest of the year.

The £600m of 2½ per cent index-linked Treasury 2024 is partly paid with only 30 per cent due at tender on December 30. The rest is payable on February 10. Does this, perchance, suggest that the authorities will not fund between the two dates?

Goldman Sach's economists reckon that the net funding programme has already been completed and that gross gilt issues in the remaining three months of the year will actually be less than redemptions, meaning a net cash injection into the market over the next quarter. As they put it, a definitely bullish factor.

The new stock will have the longest maturity in the market, a cause for some scratching of heads on Friday afternoon. The concept of a very long index-linked gilt which is tax free to foreigners is rather strange and one is hard put to pinpoint the kind of overseas institution which would be particularly attracted, given that yields on long-dated conventionals seem to offer better value.

There is a gap in the maturity spectrum of the index-linked sector between 1990 and 1996, an area popular with some insurance firms, and a new issue aimed at this market might have been less surprising. One conclusion could be that the Bank must have been seeing reasonable demand from pension and life assurance funds which like very long stocks, and decided to throw down a gauntlet to overseas fund managers at the same time.

What ever the thinking behind the features of the gilt, it was rather nice to see the Government Broker end an interesting and eventful year in a burst of innovative spirit.

There was not much reaction to the announcement on Friday but unresolved Opec talks, particularly just before Christmas, are never conducive to aggressive trading. With Opec out of the way, the market will now be free to turn to longer-term prospects, both economic and political.

The next hurdle could prove to be tomorrow's November balance of payments figures. Forecasts for the trade balance range from £600m to £1bn and markets will be watching to see whether there has been any downward revision to the Government's invisibles projection of a £900m per month surplus in the final quarter. This would not be surprising, given the statistical gyrations connected with October's figures.

But what is more important in the longer term is not whether a few hundred million pounds here or there on invisibles will leave 1986 in small surplus or small deficit. More crucial for sentiment will be any signs that manufacturing industry is beginning to export more at last and that the persistent rise in import penetration is starting to slow down.

Janet Bush

US MONEY AND CREDIT

Bond markets focus on Geneva

WITH LITTLE to mull over on the domestic front, US bond market players turned their attention to Geneva last week from where Opec's ebbing and flowing hopes of oil production cuts became the main mover of bond prices in extremely quiet pre-holiday trading.

The market became so engrossed in the long-running spectacle that bond prices fell as talks resumed and rose as they adjourned. The concern was that any eventual pact to lower output would push up prices and feed through to higher inflation and interest rates.

Bond prices gyrated within a narrow range and ended the week before the deal was done early Saturday essentially unchanged at the long end of maturities. The temporary upturn at the short end was heavily influenced by a Fed funds rate which soared to nearly 8 per cent.

This was interpreted as a technical problem rather than a tightening of Federal Reserve policy. The main factor was heavier and earlier-than-usual borrowing by banks to meet seasonal needs. Although the rate eased by the end of the week, the problem could recur in the few weeks straddling the turn of the year.

In fact it is widely believed that the Fed's next policy move will be an easing of interest rates, although not until February at the earliest if present economic trends persist. A wide consensus exists that the economy's present moderate growth rate will begin to falter early next year, requiring Fed stimulus.

So entrenched is this view in the psychology of market players, that any fresh data deviating from that picture tends to be dismissed as an aberration. Thus any sign of greater economic strength is rationalised now as borrowing growth from the first quarter.

When November's consumer spending turned out far stronger than expected last week and personal incomes weaker, economists generally believed the data overplayed and underplayed respectively the true picture.

Similarly, a strong rise in November's durable goods orders of around 1.5 per cent is expected tomorrow but this has to be seen in context of the 5 per cent drop in the previous month.

Comfortable for now in this groove, the market expected no change in the Fed's stance when the agency's policy making Open Market Committee met last week. Support for this view came at the end of the week with the release of the minutes from the previous meeting in November. The committee voted 11-0 for standing pat.

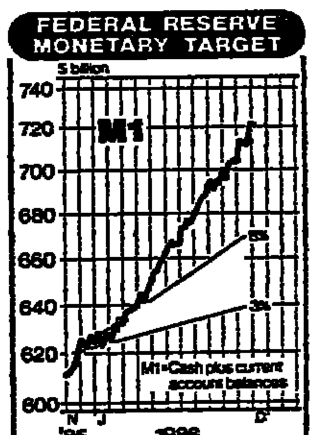
No stimulus was needed because the economy was expanding "at a moderate rate," inflationary pressures were "well contained," signs were emerging of "greater stability" in foreign exchange markets, and M2 and M3 growth had moderated, bringing the two broader measures of money supply back within the Fed's target ranges.

The tone of the meeting was markedly different from September's. Then the committee had leant towards firming policy because of the perceived threat of inflationary pressures shown by rises in some sensitive prices, a steepening yield curve, and fast growth in M2 and M3.

The Fed minutes are an apt reminder of how rapidly autumn's spate of inflation fears have evaporated. The anxiety which was partly to blame for the stock market's precipitous correction in mid-September has become an assurance that inflation is under control. November's consumer price index released last week bore that out although the market did twitch to the old oil price-inflation tune.

One of inflation's most fierce foes stepped down last week from his governorship of the Fed. Mr Henry Wallich, appointed in 1974 and the longest serving member of the present board, was forced by ill-health to retire. He was the last loyal ally of Mr Paul Volcker, sharing the Fed chairman's strong opposition to inflation.

FEDERAL RESERVE MONETARY TARGET



"Henry is, first of all, an inflation fighter, deeply committed to the need for currency and financial stability," Mr Volcker said in praising Mr Wallich on the announcement of his retirement. With special responsibilities for international matters, Mr Wallich was well known and respected abroad.

His departure, however, is not likely to change the balance of power much on the seven-man board. It was apparent that he and Mr Volcker were outnumbered by the easier-credit advocates as far back as February when the board carried a vote against Mr Volcker for the first time in his chairmanship.

With the previously announced departure of Governor Emmett Rice at year-end, President Ronald Reagan will have two of seven posts to fill. Like his other appointees, the new governors are likely to be more growth conscious and less inflation sensitive than Mr Volcker. The Administration will probably be slow to select new governors, though, because of its preoccupation with the Iran-Nicaragua arms investigations.

Mr Volcker has worked more comfortably with the Reagan majority on his board since Mr Preston Martin quit as vice-chairman. Thus a Volcker (1), Reagan (6) board might be seen by domestic and foreign markets as a constructive balance in these low inflation, low growth times.

Such accommodation might be short-lived, however, since Mr Volcker is up for renomination next summer. The political support for him to continue—and his desire to do so—are matters for conjecture but the arms affair has improved a little his chances of staying.

Roderick Oram

US MONEY MARKET RATES (%)

	Last Friday	1 week ago	4 wks ago	12-month High	12-month Low
Fed Funds (weekly average)	6.62	5.98	6.26	9.91	5.71
Three-month Treasury bills	5.50	5.48	5.36	7.28	5.05
Six-month Treasury bills	5.58	5.61	5.40	7.38	5.05
Three-month prime CDs	6.25	5.98	5.78	8.26	5.45
30-day Commercial Paper	6.90	6.00	5.85	8.05	5.55
90-day Commercial Paper	6.30	5.85	5.78	7.89	5.46

US BOND PRICES AND YIELDS (%)

	Last Friday	Change on week	Yield	1 week ago	4 wks ago
Seven-year Treasury	100⅞	—	6.95	6.96	6.99
20-year Treasury	117¾	+0⅛	7.66	7.72	7.89
30-year Treasury	101¾	+0⅝	7.37	7.40	7.60
New 10-year "A" Financial	n/a	n/a	8.13	8.12	8.31
New "AA" Long utility	n/a	n/a	8.88	8.75	9.20
New "AA" Long Industrial	n/a	n/a	8.88	8.75	8.88

Money Supply: In the week ended December 18 M1 fell by $800m to $720.7bn.

Source: Salomon Bros (estimates).

NRI TOKYO BOND INDEX

December 1983 = 100	18/12/86	Average yield (%)	Last week	12 wks ago	26 wks ago
		PERFORMANCE INDEX			
Overall	131.53	4.99	131.30	128.45	126.24
Government Bonds	132.38	4.88	132.11	129.25	126.42
Municipal Bonds	131.85	5.41	131.89	128.41	124.88
Government Guaranteed Bonds	132.52	5.48	132.36	128.95	125.32
Bank Debentures	127.93	4.72	127.75	125.27	122.57
Corporate Bonds	130.09	5.65	129.94	127.57	123.79
Yen-Denominated Foreign Bonds	132.64	5.49	132.40	129.48	125.82
Government 10-Year†	—	5.39	5.40	5.51	5.81

† Estimated par yield.

Source: Nomura Research Institute.

FT/AIBD INTERNATIONAL BOND SERVICE

US DOLLAR STRAIGHTS	Issued	Price	Chg. on week	Yield
AHFC O/S Fin 11¾ 94	100	104	+0½	10.90
AIDC 11 89	75	107⅛	−0⅝	7.23
Alcan Australia 8½ 89	25	109	+0½	8.45
Amer Saving 12 89	125	105⅞	0	9.11
Amer Saving 12½ 89	100	105⅞	−1⅛	9.58
Sanwa Bank 11⅞ 92	150	112¾	0	8.56
Sanwa Ind 11½ 92	100	116½	+0⅛	7.72
Saskatchewan 10¾ 92	100	112⅞	−0⅛	7.75
Saskatchewan 10¾ 90	125	108⅞	−0⅛	7.37
Saskatchewan 11⅞ 89	100	112	0	7.14
Saskatchewan 15 92	150	131	0	7.35
Saskatchewan 16 89	125	117¾	−0⅛	7.16

CONVERTIBLE BONDS (partial)				
CIR Intl 4⅞ 95	85	133	−0⅛	−13.29
Daiwa Secs 5½ 96	60	606	−3¼	−1.47
Electrowatt 5 98	51	160⅞	−7⅛	−6.76
Fuji Bank 2⅞ 00	100	158⅛	+0⅛	6.94
Fujitsu 3 99	180	165⅛	+4	3.77
Intec Inc 3 99	50	196⅞	−4	−3.38
Kyowa Hakko 6⅞ 97	40	428	−5¼	−5.69

STRAIGHT BONDS: Yield to redemption of the mid-price. Amount issued is expressed in millions of currency units except for yen bonds, where it is in billions.

FLOATING RATE NOTES: US dollars unless indicated. Margin above six-month offered rate (‡ three-month; § above mean rate) for US dollars. C.cpn=current coupon.

CONVERTIBLE BONDS: US dollars unless indicated. Prem=percentage premium of the current effective price of buying shares via the bond over the most recent share price.

WARRANTS: Equity warrant prem=exercise premium over current share price. Bond warrant ex yld=exercise yield at current warrant price.

Closing prices on December 19

INTERNATIONAL CAPITAL MARKETS and COMPANIES

Yamaha suffers first-half downturn

By Yoko Shibata in Tokyo

YAMAHA MOTOR, the world's second largest manufacturer of motorcycles after Honda, suffered a 28.8 per cent fall in pre-tax profits in the half-year to October to Y3.06bn ($18.7m) from Y4.3bn a year earlier.

Net profits dropped by 18.2 per cent to Y2.66bn from Y3.25bn, on sales of Y194.98bn, down 1.5 per cent from Y197.98bn a year ago. Earnings per share fell to Y16.47 from Y20.14. Yamaha will not pay an interim dividend, but plans to pay Y6 at the end of the year, unchanged from the previous year.

Domestic sales rose by 11.2 per cent, but exports declined by 11.0 per cent to account for 51.6 per cent of total sales, hit hard by the yen's steep appreciation. Its efforts to reduce costs and administrative expenditures were outweighed by the negative effects of the strong yen.

Sales of motorclcyes in the domestic market grew by 4.5 per cent to Y47.7bn, but exports fell 17.2 per cent to Y39.24bn. Exports to the US and Europe were brisk, showing a 63 per cent increase from a year ago, but exports to other markets were sluggish.

Sales of boats and outboard motors rose by 3.7 per cent to Y29.65bn.

For the full year ending April 1987, sales are projected at Y345bn, down 15 per cent from the previous year and pre-tax profits unchanged at Y4.5bn.

Denison to sell 55% of Egyptian oil interests

By Bernard Simon in Toronto

DENISON MINES, the Canadian resources group, is to sell 55 per cent of its Egyptian oil interests for US$136m to a Panamanian subsidiary of ENI, the Italian state-owned oil group.

The sale is part of Denison's efforts to reduce debt and improve cash flow in the wake of difficulties experienced recently in several of its businesses, including oil, uranium and coal. The company recently disposed of its controlling interest in Lake Ontario Cement.

Swiss telecommunications companies plan merger

BY WILLIAM DULLFORCE IN GENEVA

AUTOPHON AND HASLER, Switzerland's two biggest telecommunications companies, will merge next June. The new enterprise will have annual sales of close to SFr 2bn ($1.17bn), employ 13,000 people and account for nearly two-thirds by value of the Swiss telecommunications industry's output.

The merger comes as the Swiss government has started moves to ease the Post Office's monopoly over the country's telecommunications network to enable private companies to sell telephones, switchboards and telex machines.

Both companies have recently shown good growth, increased their dividend payouts to shareholders last year and raised new capital. Autophon specialises in telephone equipment and radio telephones, Hasler in electronics and telex machines.

To effect the merger Autophon will form its own holding company in which current holders will be able to exchange their shares and participation certificates on a one-for-one basis.

Autophon Holding will then be merged with Hasler Holding into a new holding company, Ascom. More details of the transaction will be announced today.

The new company will increase its holding in Zellweger Telecommunications, another Swiss company with a SFr 400m turnover specialising in electronic equipment for transport and electricity distribution. Zellweger in turn will take a stake in Ascom.

Over the period from 1981 to 1985, Autophon's sales grew on average by 17 per cent a year. Last year it reported net earnings of SFr 14.9m on a SFr 612m turnover and after acquisitions forecast sales of SFr 800m this year.

Hasler disclosed consolidated earnings of SFr 23m on sales of SFr 778m in 1985, with net earnings in the holding company jumping to SFr 9.7m from SFr 6.6m. It expects a 10 per cent increase in group sales this year.

Magneti Marelli raises L321bn

BY ALAN FRIEDMAN IN MILAN

MAGNETI MARELLI, the Fiat car components subsidiary, is to raise L321.2bn (US$230.7m) by means of the issue of equity and bonds on the Milan bourse.

The company, which this year is expected to achieve sales of around L700bn, plans to use the proceeds to acquire control of a 65 per cent stake in Fiat-Matra. The group which includes the merged car components businesses of Fiat and Matra, the French state defence and electronics concern.

Magneti will also take control of other car components businesses and expects then to represent the master Fiat car components holding company with L2,500bn of combined turnover.

The L321.2bn of funds is to be raised in part by the issue of 45.9m ordinary and 25.5m savings shares (convertible into ordinary stock), to be offered at a price of L3,000 a share on the basis of two new shares for every five already held. These share issues will raise a total of L214.2bn.

Magneti Marelli will also launch a L107bn bond issue convertible into savings shares which in turn will be convertible into ordinary shares.

The convertibility of the savings shares (which are non-voting) into ordinary stock is important given the lack of enthusiasm among Italian investors for the issue of strictly non-convertible savings shares.

The proceeds not used for the acquisitions and reorganisation of the group will go toward research and development expenditures over the 1987-89 period.

The combined new Magneti group will employ 30,000 people (Magneti at present accounts for a workforce of 7,708 people while Fiat-Matra employs 21,000) and will control more than 60 manufacturing plants.

Magneti Marelli is 78.5 per cent owned by Fiat and the remaining 21.5 per cent of its shares are on the Milan bourse. The company last year achieved a L14.9bn net profit on L611bn of turnover.

Speichim losses to reach FFr160m

BY GEORGE GRAHAM IN PARIS

SPEICHIM, the French chemical plant builder controlled by Spie Batignolles, faces losses this year that will wipe out its FFr 92m capital base. Losses in 1986 are expected to reach around FFr 160m.

An extraordinary general meeting will be called as soon as the board has passed the accounts for 1986 to decide whether Speichim should continue its activities and on the measures needed to recapitalise the company.

Spie Batignolles, a big construction company which is now the target of the expanding Bouygues empire, owns a 52 per cent stake in Speichim.

Although Spie is controlled by the Schneider group, Mr Francis Bouygues has built up a blocking stake of over 33 per cent. Speichim has been losing money since 1983, and has already restructured its operations and shed labour. Losses in 1985 amounted to FFr 5.9m on turnover of FFr 371m.

Speichim said that insufficient orders had led to under-activity throughout the company. In addition, heavy losses had been recorded on an order for an ethanol plant in Louisiana from Mississippi River Alcohol Company.

Senior Spie executives say they expect to recapitalise Speichim and allow it to continue its activities, but this will involve writing down the value of the current shares to zero.

Reshaping at Sonat to bring big charge

By Our Financial Staff

SONAT, THE struggling Alabama-based energy and natural resources group, is to undertake a big restructuring programme which will cause a total after-tax charge of about $350m this year.

The restructuring, a further sign of the problems affecting virtually all sectors of the US energy industry following the decline in oil prices in 1986, is intended to sharpen Sonat's focus on pipeline, exploration and production and two oil service activities.

The charge will reflect settlement of natural gas supply contract disputes and the write-down in value of oil service assets and oil and gas reserves. Tug and barge operations, the underwater service business and some timberland and property assets will be divested.

In 1985, Sonet reported a loss from operations of $60.1m or $1.48 a share, which included a $4.34 a share writedown of energy properties.

● Penn Central said it expects to realise a fourth-quarter pre-tax gain of about $470m, equivalent to $270m or $6.70 a share net, from the recently completed or pending sale of its propane distribution and oil pipeline businesses.

However, the gain will be offset by a charge of about $390m pre-tax, $220m or $5.50 a share net, from the year-end writedown of the company's electronics, offshore drilling rig manufacturing and remaining energy businesses.

● Dresser Industries, Dallas-based manufacturer of products for the energy industry, announced a $31.3m or 41 cents a share fourth quarter loss. This includes a $46m charge, due mainly to the company's inability to use certain tax-loss carry-forwards.

The results compare with a loss a year earlier of $249m, which includes a $269.8m charge for write-downs and disposals. For the year, Dresser had net profits of $9.6m or 12 cents a share against a loss of $196.4m or $2.58 a year earlier.

Revenues slipped from $4.11bn to $3.66bn.

Learning to cope with triple witching hour

BY RODERICK ORAM IN NEW YORK

THE SPECTACLE last Friday of nearly 90m shares trading smoothly in a matter of moments at the closing bell on the New York Stock Exchange left many participants saying that investors had learnt how to cope with the vagaries of triple witching hour.

But while there was widespread praise for the flawless way the exchange's system handled the tidal wave, some questions were raised about the effect of regulations designed to dampen volatility and the role that traders' new tactics played in the simultaneous expiry of stock index options, index futures and options on the underlying shares, a quarterly phenomenon.

The unprecedented volume of "execute on close" orders, around double those of the two previous triple witching hours, brought a record for the full day of 244.7m shares, breaking the old one of 240.5m set on September 12. "The system is dealing with this new configuration very well," said Mr Louis Margolis, Salomon Brothers' managing director of equities, options and futures.

Against expectations, the Dow Jones industrial average closed up 16.03 at 1,928.85. Based on past "mornings after" which have often brought an opposite reaction of almost equal magnitude, prices could fall this morning.

It is hard to forecast the outcome of a triple witching hour but the large volume on Friday of open interest in December contracts for the Standard & Poor's 500 stock index had led to predictions of selling pressure on the underlying stocks.

This theory was borne out in part when brokers had to report any order imbalances on 50 stocks half an hour before the closes, as required under new NYSE rules designed to help smooth out the distortions of the last moments of trading. These showed a very large number of sell orders on many of the stocks which were not balanced by buy orders.

Among the selling brokers, Morgan Stanley had said earlier in the afternoon that it was going to offer $800m of stock and Kidder Peabody said it would unload $650m worth. Eager to take advantage of the heavy sales, many investors, particularly institutions, rushed in with buy orders.

One of the biggest brokers on the buy side was Salomon Brothers with orders for $2bn of stock even though its staff were working by battery lights because of a power failure in their trading room. Screens and telephones were working normally.

The buy pressure pushed up the Dow index but raised the question of whether the market had overreacted to the sell order imbalances. Seeking a more effective cure, the Chicago Mercantile Exchange has asked for permission to change the expiry of its highly popular S & P 500 contract to the opening of trading on triple witching days to allow a full session to work out imbalances.

Last Friday's close saw a change of tactics by many professionals trying to profit from arbitraging between stock indices and the underlying shares. Generally they have vocused on the expiring index futures contracts. This time they sold March futures which were trading at a premium to the shares, bought shares and allowed their December contracts to expire.

Not only did they pick up shares cheaply relative to the March index but enhanced the value of their December contracts at the same time. On expiry the contract has the same value as the cash index which was rising because of the buying pressure.

NEW INTERNATIONAL BOND ISSUES

Borrowers	Amount m.	Maturity	Av. life years	Coupon %	Price	Book Runner	Offer yield %
U.S. DOLLARS							
Kajima Corp. ¶‡	100	1991	5	3⅜	100	Daiwa Europe	3.375
Meiji Milk Products ¶‡	50	1992	5	3⅜	100	Daiwa Europe	3.375
Eksportfinans (Norway) ‡	150	1992	5	7¼	101½	LTCB Int.	6.885
Rep. New York Corp. (a)†‡	150	Perp.	–	¼	100	Merrill Lynch	–
Standard Oil (e)‡	50	1997	10	7⅞	101⅜	Nomura Secs.	7.673
SWISS FRANCS							
Daiwa Kosho Lease **¶‡	120	1991	–	2⅛	100	UBS	2.125
Nippon Gas **¶‡	50	1992	–	2⅛	100	J. Henry Schroder Bk	2.125
Keio Teito El. R'way **¶‡	150	1992	–	2⅛	100	UBS	2.125
Mitsui Real Es. Sales **‡	30	1991	–	4⅞	100	Mitsui Fin. (Switz)	4.875
Vorarlberger Kraftwerke ‡	100	1997	–	4¾	100	Credit Suisse	4.750
Okabe Co. **‡	25	1991	–	4⅞	100	Wirtschafts- und Privatbk	4.875
BMW of N.America **‡	60	1997	–	4¾	100⅜	Chase Manhattan Bk	4.702
Bio Cap. Holding Co. (c)§	100	2002	–	(5⅝)	100	Bqe Gutzwiller, K.B.	*
DANISH KRONER							
Norwegian Mort. Ass. ‡	300	1992	5	10½	100¼	Copenhagen Handelsbk	10.433
FINNISH MARKKA							
Postipankki (d)‡	150	1992	5	10¼	100¾	Postipankki	10.308
YEN							
Oest. Landesbank (b)†‡	10bn	1992	5	(b)	101¾	Yamaichi Int. (Eur)	–
ECSC ‡	20bn	1991	5	5⅜	101½	IBJ Int.	5.028
Denmark ‡	130bn	1992	5	5⅛	101¾	Daiwa Europe	4.724

* Not yet priced. ‡ Final terms. ** Private placement. † Floating rate note. ¶ With equity warrants. ⊕ With bond warrants. § Currency-linked. (a) ¼ over 6m Libor. (b) First 2 years 6m Libor + ⅛ x 0.18, thereafter 232bp over 6m Libor. (c) Collateralised convertible. (d) Part aimed at foreign investors. (e) Launched in Japan. Note: Yields are calculated on AIBD basis.

Charles Batchelor takes a look at the rapid expansion of Abaco

Defusing professional rivalries

A PAIR of paintings hang in the City office of Peter Goldie, chief executive of Abaco Investments. Entitled "Hubris" and "Nemesis" they depict respectively a regal head with crown and a bloodstained forehead crowned with thorns.

"They are meant to remind us that as the deals get bigger so there is a bigger chance of getting it wrong," said Mr Goldie, who has orchestrated Abaco's rapid emergence as a small professional services conglomerate over the past 3½ years.

So far, this talisman has not been needed despite the speed of expansion at Abaco. Last Thursday's announcement that Abaco is to pay up to £6.2m for a controlling stake in Mortgage Systems, which administers mortgage portfolios for banks and insurance companies, brought to eight the number of acquisitions by Abaco this year alone.

The City's enthusiastic response to this welter of activity has meant Abaco's shares has shown the eighth largest price gain among major companies over the past 12 months. Its market capitalisation has risen from £32.4m at the end of 1985 to £127m.

In June 1983, Greencoat Properties, as Abaco was then known was a struggling property company with a market valuation of just £5m. Mr Goldie and a colleague from merchant bankers Guinness Mahon, Mr Cameron Brown, lighted on Greencoat as a vehicle for their ambition.

The two men were joined a few months later by Mr Rusty Ashman, formerly financial controller at Octopus, the publishing group. They now comprise Abaco's small executive board.

Mr Goldie, at 40 the eldest of the trio, and his team have succeeded to a remarkable degree in reconciling the irreconcilable. They have persuaded the senior partners of a range of professional firms to give up their independence for the corporate embrace of a publicly listed company.

They have built up a group comprising estate agencies, mortgage brokers, insurance loss adjusters, insurance brokers and property management, and employing a total of 1,400 people. Pre-tax profits doubled to £1.34m in the year ended June 1986 on turnover which rose four-fold to £16.8m.

"We have tried to use our financial and management skills to put together a group of fragmented businesses," said Mr Goldie. "We are creating businesses of a size they could not achieve on their own. It is difficult to get partnerships to work together, yet we are getting to the stage where all service businesses have to be either big or small and specialised—they can no longer be medium-sized."

Mr Bruce Brown, senior partner of Anthony Brown Stewart, a chartered surveyors acquired last May, confirmed this view: "It's unlikely that a chartered surveyor who was any good would accept an offer from another lot of chartered surveyors," he said.

"But Abaco bought a 30 per cent stake in us two years ago. We had 12 months to see if we liked their system and we did, so we sold them the remaining 70 per cent."

Several of the partnerships taken over by Abaco had previously flirted with rival partnerships but cried off.

But apart from defusing professional rivalries, what can Abaco bring to the businesses it acquires?

Abaco's executive board (from left to right)—Mr Rusty Ashman (finance director), Mr Peter Goldie (chief executive) and Mr Cameron Brown (deputy chief executive)

● Finance. As a publicly quoted company it is easier for Abaco to raise funds for expansion at its protegès. It has arranged a £40m bank loan facility to fund further acquisitions.

It is also able to offer a share option scheme as an incentive to its senior executives. Four hundred of its 1,400 staff have joined the company scheme.

The other side of this coin, of course, is that the partnerships must conform to Abaco's tight financial controls. Monthly reports on profits, cash flow and the balance sheet are called for as is an annual rolling budget.

● Strategic planning. Abaco believes it is sometimes better placed to take a broad view of the direction in which professional services are moving than individual professional firms. It is putting together personal and corporate financial groupings to provide a range of services.

Actuaries, accountants and legal practices could be added in future if the professional rules change to permit this.

Mr Goldie is adamant, however, that there will be no attempt to force synergy on the group. "We would rather miss synergy than ram it down someone's throat," he said. This also means group companies will not be required to sell services provided by other parts of the group — unless they are competitive.

● Deal-making skills. Abaco's small head office team — comprising three executive directors and five accountants — handle the acquisition programme, freeing the professional partners to do their own jobs. Partners do have to spend time on group board meetings but, according to one, there is an overall saving in time and energy.

● Limited liability. Abaco's company status means the partners in the professional firms are freed of the burden of unlimited personal liability. With litigation on the increase, professional indemnity insurances has become more difficult to arrange and more expensive.

The developments at Abaco have attracted the attention of two other large financial groups, British & Commonwealth Shipping, with a 28 per cent stake and, more recently, Standard Chartered Bank, with a 12.7 per cent.

Both are regarded by Abaco as friendly investors. The arrival of Standard Chartered will, Mr Goldie hopes, counteract the impression that Abaco was part of B & C.

Abaco's futures development will depend very much on how successful it is in maintaining an arms-length relationship with its large shareholders and between its various subsidiaries.

It must also adapt to an inevitable slow-down in its recent spectacular rates of growth, and to a fall in the high market rating which has made possible the spate of acquisitions. It will then be judged on its ability to squeeze more profits out of a fairly staid set of businesses.

"It will be a challenge to preserve the informality and the enthusiasm of the early years," acknowledged Mr Goldie. "It is a question of getting the advantages of bigness without the disadvantages."

Kelsey Inds. progresses and passes £2m mark

PRE-TAX profits at Kelsey Industries, manufacturer of solder, increased from £1.57m to £2.04m in the year to September 30 1986. The comparable figures was after an exceptional debit of £150,000.

The final dividend is hoisted from 5.5p to 6.25p net for an increased total of 8.75p compared with 8p, and stated earnings per 25p share rose from 27.5p to 33.2p.

Turnover was down from £34.61m to £31.44m. There was a tax charge of £850,000 (£427,000) and a minority credit of £7,000 against a debit of £126,000. There was an extraordinary credit last time of £248,000.

The directors said that while the company was still pursuing a claim for the recovery of loss due to the collapse of the price of tin, they looked forward to further progress in the current year, particularly with new products that had recently been developed.

In his interim statement, the chairman stated that the turmoil in the tin market was brought to an end during March by LME fixing a final settlement figure of £6,250, and their outstanding LME tin contracts were settled at that price. Immediately, the value of tin fell below £4,000 per ton.

That severely affected the interim results by a shortfall of approximately £500,000, and legal action was then considered to recover those funds.

Most overseas operations had shown a substantial improvement during the current year, and the company looked forward to further growth from all these companies.

Improved results were also expected from contracting companies and audio video products.

Consortium acquires 21.3% stake in Edinburgh Financial

A CONSORTIUM headed by Mr Bruce Judge, a leading New Zealand entrepreneur, has acquired 21.3 per cent of Edinburgh Financial Trust, one of the investment trusts run from the Scottish capital. Observers in Edinburgh believe that Mr Judge may wish to use Edinburgh Financial as a vehicle for expansion in the UK.

The 21.3 per cent stake in Edinburgh Financial Trust, which has assets of about £17m, is held by Mr Judge himself and by Judge Corporation with 8.13 per cent; by Waverley Assets Management, an Edinburgh fund manager, as nominees for Mr Judge, with 0.28 per cent; by Chequepoint Hong Kong with 11.58 per cent; and by the trustees of Lord Tanlaw's 1965 Settlement with 1.04 per cent.

Mr Judge owns 55 per cent of Judge Corporation, a leading New Zealand quoted company, which holds 20 per cent of Ariadne—a major Australian company with interests in automotive parts, farming, natural resources and gold. Chequepoint Hong Kong manages foreign exchange bureaux and has interests in Australasian natural resource projects. Lord Tanlaw and his family have large interests in Australia, mainly in agriculture.

Waverley Assets Management, which is acting for Mr Judge, will not say whether the acquisition of the stake in Edinburgh Financial Trust is a prelude to a bid for full control of the trust, which is run by Stanecastle Assets.

Earlier this month, Edinburgh Financial Trust agreed to acquire 30 per cent of First Northern Finance Corporation, which specialises in corporate finance.

Net asset improvement at TR Trustees Corpn.

NET ASSET value of TR Trustees Corporation's 25p shares at November 30 1986 was 232.6p, an increase of 2.4 per cent on the May 31 1986 year-end value. Earnings increased from 2.5p to 2.66p and the interim dividend is increased from 1.8p to 1.9p per share. A one-for-one scrip issue is also recommended.

The directors stated that UK investments were actively managed and had benefited from the high level of takeover bids. However the largest investment, Century Power and Light, continued to underperform as oil prices had remained volatile.

In view of sterling's vulnerability ahead of the forthcoming election TR purchased $12m at 1.4630 in August 1986 for forward settlement in May 1987 to meet the repayment of dollar loans. This had left the foreign currency element of the portfolio unhedged.

In the US, TR had started to reduce its exposure to unquoted securities. In the technology sector the company had realised a substantial gain on Berkeley Technology. Nevertheless its above average exposure to the sector continued given the recovery prospects over the next 12 months.

Windsor Securities expands

Windsor Securities (Holdings), Lloyd's insurance broking group, lifted its pre-tax profit from £47,670 to £161,834 in the year ended September 30 1986. Group income rose from £709,000 to £2.49m.

Mr John Carr, chairman, said during the year solid progress had been achieved. Substantial amalgamation and restructuring costs were absorbed.

Earnings for the year were up to 1.108p (0.005p) per share, and the final dividend is 0.5p for a net 0.7p total (0.65p).

COMPANY NEWS IN BRIEF

BRITISH & Commonwealth Shipping Company's proposed acquisitions of Steel Brothers Holdings and Exco International will not be referred to the Monopolies and Mergers Commission.

DELMAR GROUP has agreed to purchase for £500,000, Weirbrook Holdings whose principle operating subsidiary is Weirbrook Kilwinning, Ayrshire. Its main business is the manufacture of extruded polyethylene pipe insulations; directors are warranting profits before tax for 1986 of £120,000.

DARES ESTATES has acquired Hippodrome House, Aldershot, from Kleinwort Benson (Trustees) for £2.3m to be satisfied as to £1.08m in cash and the issue of 9m shares at 13½p. The property produces a rental income of £253,500. Kleinwort's funds under management own 3.76m shares in Dares, which will increase to 12.87m following the transaction (9.7 per cent).

THE CHILLINGTON Corporation (plantations, engineering and investment group) has acquired a 90 per cent stake in PA Langdon (Coffee) for £278,000.

MAI has lifted its holding in London and Continental Advertising Holdings to 28.2 per cent of the ordinary share capital as enlarged by a recent rights issue. LCAH shares were unchanged on Friday at 120p, against MAI's cash offer of 118p. MAI fell 3p to 420p, valuing its 27-for-100 share alternative at 113.4p.

EADIE HOLDINGS has purchased Yorkshire-based Hewitt and Crabtree for £157,500, satisfied by the issue of 337,595 ordinary shares. In its last trading year to June 30 1986, Hewitt and Crabtree made profits of £47,000 on turnover of £464,000.

HARDYS & HANSONS increased its pre-tax profits from £3.43m to £3.67m in the 52 weeks to October 3 1986 on turnover (excluding VAT) up from £19.62m to £20.25m. The total dividend is raised from 16.9p to 18.7p with a final of 13.1p (11.9p). Stated earnings per share improved from 38.77p to 45.47p.

WINGATE PROPERTY Investments' preference offer for Property Holding & Investment Trust received acceptances in respect of 463,799 PHIT shares (92.9 per cent of preference capital). The preference offer is therefore declared unconditional in all respects. The ordinary offer went unconditional on December 5.

REGALIAN PROPERTIES says that of the 11.24m new ordinary shares provisionally allotted in the recent rights issue, 6.77m (approximately 60.25 per cent) were taken up. The balance has been subscribed for at 325p by the sub-underwriters. Certain sub-underwriters indicated their wish to sell in the market approximately 1m ordinary arising from their commitments, and such shares have been placed through the market with institutional investors and other clients at 322p.

READICUT INTERNATIONAL said applications to purchase its new ordinary shares have been received in respect of 14.32m new ordinary shares, representing approximately 68.4 per cent of qualifying shareholders' aggregate entitlement. The 6.62m new ordinary shares not applied for by qualifying shareholders will be retained by the institutional investors with whom they were conditionally placed, subject to completion of the acquisition of F. Drake (Fibres).

SMITHS INDUSTRIES and CREST NICHOLSON have reached agreement for the acquisition by Smiths Industries of Crest's wholly owned subsidiary companies, J. D. Potter and Camper & Nicholsons Marine Equipment. These two companies, with combined assets of around £1m, will be integrated with the existing SI subsidiary, Kelvin Hughes. All three companies have, for many years, served the world of marine navigation as supplier of charts, books, chartwork instruments, sextants, chronometers and other nautical instruments, as well as a range of chandlery.

FT Share Information

The following securities have been added to the Share Information Service.

Brake Bros. (Section: Food, Groceries)
Banks (S.) (Food, Groceries)
Geest (Food, Groceries)
Kenmare Oil Expln. (Oil & Gas)
London & Metropolitan (Property)
Nationwide Bldg. Soc. 11¼pc 23/11/87 (Loans)
North West Expln. (Oil & Gas)
Radamec (Electricals)

BOARD MEETINGS

The following companies have notified dates of board meetings to the Stock Exchange. Such meetings are usually held for the purpose of considering dividends. Official indications are not available as to whether the dividends are interims or finals and the subdivisions shown below are based mainly on last year's timetable.

TODAY

Interims:—Amalgamated Financial Investments, Batleys, Dominion International, G. M. Firth, Porter Chadburn, Radiant Metal Finishing, Southwest Resources.

Finals:—Nash Industries.

FUTURE DATES

Interims:—
Arbuthnot Dollar Income Trust ...... Dec 31
Barlsfords ...... Dec 23
Black (Peter) ...... Jan 9

Finals:—
Abbey Panels Investments ...... Jan 6
First Leisure ...... Jan 21

PENDING DIVIDENDS

Dates when some of the more important company dividend statements may be expected in the next few weeks are given in the following table. The dates shown are those of last year's announcements except where the forthcoming board meetings (indicated thus *) have been officially notified. Dividends to be declared will not necessarily be at the amounts in the column headed "Announcement last year."

	Date	Announcement last year
ASDA-MFI	Jan 8	Interim 1.25
*Associated Newspapers	Jan 8	Final 11.5
Davy Corp	Jan 16	Interim 1.1
Dixons	Jan 15	Interim 2.31
*Dowty	Jan 21	Interim 2.3
London Scottish Finance	Jan 13	Final 2.1
Magnet and Southerns	Jan 15	Interim 2.6
Ratners	Jan 13	Interim 0.75
Trusthouse Forte	Jan 15	Final 4.15
Wardle Storeys	Jan 8	Final 3.3

* Board meeting intimated. † Rights issue since made. ‡ Tax free. § Scrip issue since made. ¶ Forecast.

Notice of Redemption

European Economic Community

£50,000,000 11⅞ per cent. Bonds 1991

NOTICE IS HEREBY GIVEN that, pursuant to the terms and conditions of the Bonds, Citibank, N.A. as Principal Paying Agent, has selected by lot for redemption on February 1, 1987 £10,000,000 principal amount of said Notes, at the redemption price of 100% of the principal amount thereof. Notes selected by lot for redemption are as follows:

Outstanding Notes bearing serial numbers ending in any of the following two digits:

00	07	10	20	26	31	32	43	46	49
53	58	63	65	67	70	73	81	95	98

Payment will be made upon surrender of Bonds together with all coupons maturing after the date fixed for redemption, at the offices of the Paying Agents as shown on the Bonds. Coupons maturing on February 1, 1987 should be detached and presented for payment in the usual manner. On and after February 1, 1987 interest on the Bonds will cease to accrue and unmatured coupons will become void.

Outstanding after February 1, 1987 £40,000,000.

December 22, 1986
By: Citibank, N.A. (CSSI Dept.)
London, Principal Paying Agent

CITIBANK

FINANCIAL TIMES STOCK INDICES

	Dec. 19	Dec. 18	Dec. 17	Dec. 16	Dec. 15	Dec. 12	1986 High	1986 Low	Since Compilation High	Since Compilation Low
Government Secs.	82.32	82.19	82.13	82.30	82.39	82.24	94.51	80.39	127.4	49.18
Fixed Interest	89.21	89.17	89.15	89.25	89.08	89.00	97.68	86.55	150.4	50.53
Ordinary	1272.1	1270.6	1276.1	1279.6	1280.3	1280.4	1425.9	1094.3	1425.9	49.4
Gold Mines	311.4	311.3	315.9	316.6	313.2	311.7	357.8	185.7	734.7	43.5
FT-Act All Share	815.18	815.04	817.34	818.18	818.13	815.18	832.39	664.42	832.39	61.92
FT-SE 100	1632.2	1630.6	1636.3	1637.9	1637.0	1629.8	1717.6	1370.1	1717.6	986.9

GRANVILLE SPONSORED SECURITIES

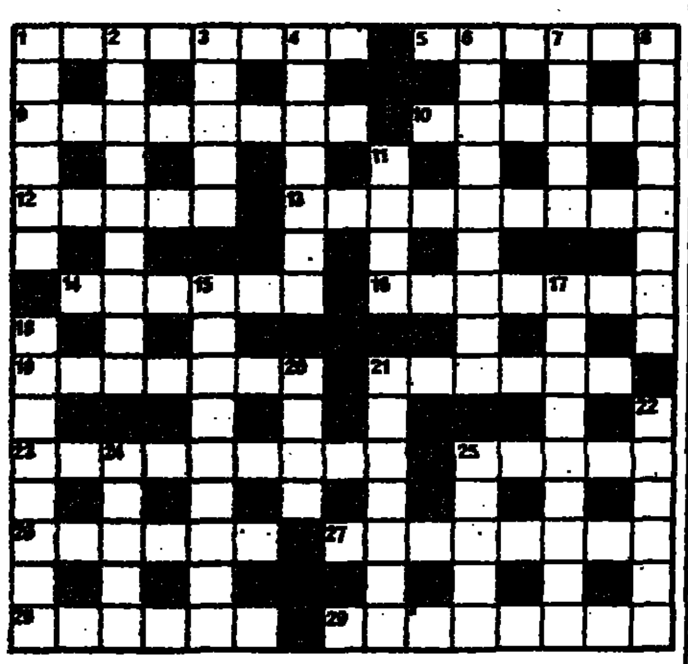
Capitalisation £000's	Company	Price	Change on week	Gross div.(p)	Yield %	P/E
4,578	Ass. Brit. Ind. Ord.	132xd	—	7.3	5.5	8.1
—	Ass. Brit. Ind. CULS	145xd	—	10.0	6.9	—
850	Armitage and Rhodes	34	−2	4.2	12.4	4.8
6,548	BBB Design Group (USM)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
68,473	Bardon Hill	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
8,228	Bray Technologies	212xd	+5	[illegible]	[illegible]	[illegible]
495	CCL Group Ordinary	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
1,238	CCL Group 11pc Conv. Pref.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
15,897	Carborundum Ord.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
630	Carborundum 7.5pc Pf.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
3,178	Frederick Parker Group	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
1,678	George Blair	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
3,892	Ind. Precision Castings	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
11,790	Isis Group	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
6,609	Jackson Group	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
49,989	James Burrough	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
3,152	James Burrough 9pc Pf.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
54,874	Multihouse NV (AmstSE)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
8,165	Record Ridgway Ordinary	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
2,214	Record Ridgway 10pc Pref.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
877	Robert Jenkins	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
1,800	Scruttons "A"	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
3,344	Torday and Carlisle	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
11,487	Travian Holdings	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
15,900	Unilock Holdings (SE)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
27,222	Walter Alexander	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
4,574	W. S. Yeates	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
4,113	West Yorks Ind Hosp (USM)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

AUTHORISED UNIT TRUSTS

FT UNIT TRUST INFORMATION SERVICE

F.T. CROSSWORD PUZZLE No. 6,209

PROTEUS



ACROSS

1 Musicians following girl in dance (8)
5 Public funds devoted to flowers (6)
9 Child solidarity free from ill consequences (8)
10 Mistakes arising from long time in desert (6)
12 Instrument band got from Marx? (5)
13 A party needing a share of reverence (9)
14 Eastern politician finding outlet in church (6)
16 Club making point in editorial (7)
19 Book with a show of restraint (7)
21 Note about certain stitch (6)
23 Bird having to catch food (9)
25 Hope footballers hit out (5)
26 Draw forth a certain amount of felicitations (6)
27 Foreigner needing guide on the way (8)
28 Hammer novice found among reeds (6)
29 Repaired and put back in stock (8)

DOWN

1 Trifling affront (6)
2 They are interested in stories about railway workers (9)
3 Singer with love for game (5)
4 Overtime payment said to encourage productivity (7)
6 Expression silver-worker has for boisterous brawler (9)
7 Article about bed—one for an animal (5)
8 Tools used to make bridges? (8)
11 Head getting only pass-degree (4)
15 Taking off staff without handing over money (9)
17 Weapon of the German campanologist (9)
18 Holds out chances of public relations jobs? (8)
20 Impetuosity shown in the lancers (4)
21 Respect displayed for symbol of authority (7)
22 Has changed colour when divided (6)
24 Banish to former French island (5)
25 Strong on oriental entertainment (5)

The solution to the Christmas Crossword will be published with names of winners on Saturday January 3.

INSURANCES

AUTHORISED UNIT TRUST & INSURANCES

American Life Insurance Co UK
2-8 Altyre Road, Croydon CR9 2LG — 01-680 7181

Alpha Range—Life				
Managed Acc	95.2	100.2	-0.2	—
American Acc	99.6	104.9	-0.5	—
Deposit Acc	99.8	105.1	—	—
European Acc	110.2	116.0	—	—
Far Eastern Acc	112.7	118.6	-0.9	—
Fixed Interest Acc	84.0	88.4	—	—
International Acc	108.3	114.0	-0.9	—
Property Acc	120.8	127.2	+1.1	—
UK Equity Acc	93.2	98.1	-0.1	—
Alpha Range—Pensions				
Managed Acc	97.6	102.7	-0.2	—
Premier Range				
Managed Acc—Life	106.2	111.7	-1.2	—
Managed Acc—Pensions	107.2	112.9	-1.1	—

Other unit prices available from American Life

Baltic Assurance Funds
20, Chiswell St, London, EC1Y 4TY — 01-374 6801

Managed Growth	254.41	267.80	-0.32	—
Managed Income	117.99	124.20	-0.28	—

Barclays Life Assur. Co Ltd
252 Romford Road, London E7 — 01-534 5544

Barclaybond	355.5	374.3	-0.9	—
Managed Accum.	301.4	317.3	-0.3	—
Equity Accum	435.5	458.5	-1.4	—
Property Accum	207.3	218.3	+0.3	—
International Accum	274.3	288.8	+0.1	—
Gilt-edged Accum	197.7	208.2	+0.4	—
Money Accum	176.7	186.1	+0.2	—
American Accum	179.7	189.2	-0.4	—
Australia Accum	167.7	176.6	+1.1	—
Financial Accum	203.6	214.4	-1.0	—
"500" Accum	220.7	232.4	-0.7	—
European Growth Accum	144.7	152.4	-0.5	—
Income Accum	240.8	253.5	-1.1	—
Japan & Gen Accum	323.9	341.0	+1.7	—
Leisure Accum	148.3	156.2	-0.4	—
Spec Sits Fd Accum	121.6	128.1	-0.4	—
Universal Tec Accum	109.3	115.1	+0.1	—
Managed Pns Accum	404.1	425.4	-1.0	—
Equity Pns Accum	146.7	154.5	-1.0	—
Intnl Pns Accum	154.9	163.1	+0.1	—
Gilt-edged Pns Accum	282.8	297.7	+0.5	—
Money Pns Accum	257.4	271.0	—	—
Property Pns Accum	107.5	113.2	—	—

For prices of Initial Units phone 01-534 5544.

Black Horse Life Ass. Co Ltd
346a High St, Chatham — 0634 405161

Black Horse Man. Fd		366.86	—	—
Income Fd.	334.67	352.29	—	—
Extra Income Fd	318.31	335.07	—	—
Worldwide Growth Fd	333.40	350.95	—	—
Balanced Fd	295.45	311.01	—	—
Smlr Co's & Recvy Fd	364.03	383.19	—	—

Cornhill Insurance PLC
57 Ladymead, Guildford — 0483 68161

Equity Fd(A&B) Dec 10	258.5	272.5	—	—
Fixed Int(A&B) Dec 10	164.0	173.0	—	—
Man Grwth(A&B) Dec 10	371.0	389.0	—	—
Money Fd (A&B) Dec 10	142.5	150.5	—	—
Cap Fd(A&B) Nov 15		410.0	—	—
G.&S. SpecFd(A&B)Nov 15		169.0	—	—
FarEastEqty(A&B)Dec 10	187.5	197.5	—	—
N.Amer.Eqty(A&B)Dec 10	106.0	112.0	—	—
IntTechnlgy(A&B)Dec 10	155.5	164.0	—	—
Property (A&B) Dec 10	197.5	208.0	—	—

Credit & Commerce Life Ass. Ltd
74 Shepherds Bush Green, W12 8SD — 01-740 7070

Life Funds				
UK Equity	142.2	150.0	-0.4	—
American Equity	123.1	129.8	—	—
Far East Equity	170.1	179.4	—	—
Managed Fund Acc	372.0	392.0	—	—
International Equity	187.1	197.3	—	—
Gilt Edged	183.4	193.4	—	—
Money Fund	145.0	152.9	—	—
CCL Henderson	161.8	170.6	—	—
CCL Perpetual	202.0	213.1	—	—
CCL Property	228.3	240.8	—	—
Smaller Cos.	236.8	249.8	—	—
Perpetual Eurogrowth	115.8	122.1	—	—
CCL Beaufort Prime Res.	97.6	102.9	—	—

Criterion Assurance Group
Swan Court, Petersfield, Hants — 0730 63281

Ultimate Mngd Fund	176.8	194.0	—	—
Criterion Mngd Fund	167.4	176.2	—	—
Pension Mngd Cap	53.0	55.7	—	—
Pension Mngd Acc	62.5	65.7	—	—
Pension G'nteed Dep Ac.	34.8	36.6	—	—

For closed Fund unit prices ring 0730 63281

Crown Financial Management Ltd
Crown Hse, Woking GU21 1XW — 04862 5033

Life Funds				
American Acc	100.8	106.1	—	—
Equity Acc	379.5	399.4	—	—
European Acc	184.2	193.8	—	—
Fixed Interest Acc	211.3	222.4	—	—
High Income Acc	362.4	381.4	—	—
Intnl. Acc	346.5	364.7	—	—
Inv. Trust Acc	418.4	440.0	—	—
Japanese Acc	167.0	175.7	—	—
Managed Acc	314.2	330.7	—	—
Money Acc	179.7	189.1	—	—
Property Acc	186.6	196.4	—	—
Individual Pension Fund(s)				
American	114.4	120.4	—	—
Equity	387.7	408.1	—	—

هكذا أصل

INSURANCE, OVERSEAS & MONEY FUNDS

World Fund S.A.
2 Boulevard Royal, Luxembourg

World Fund NAV	$18.82		+0.03	—

World Wide Growth Management
10a, Boulevard Royal, Luxembourg

Worldwide Gth Fd	$17.01			—

Inv. Adv.: M. & G. Inv. Mngt., Ltd, London

Yamaichi Capital Mngt (Guernsey) Ltd
22 Smith St, St Peter Port, Guernsey. 0481 23765

Japan Meta Growth	$10.07		+0.07	—

Yamaichi Dynamic Mngt Co SA
10A Boulevard Royal, Luxembourg

Advanced Tech	$17.69			—
Dynamic Gwth Fd	$19.72			—

Zero Bond Fund Limited
PO Box 208, St Peter Port, Guernsey 0481 26268

Zero Bond Fund	$12.25	12.94		—

Money Market Trust Funds

	Gross	Net	Gr Equiv CAR	Int Cr
Charities Aid Fndn Money Mngmt Co Ltd — Staple Hall, Stone Ct, Houndsditch, EC3 01-283 6461				
CAFCASH Call Fund	10.48	7.83	11.50	3-mth
CAFCASH 7-day Fund	10.65	7.98	11.69	3-mth
The Charities Deposit Fund — 2 Fore Street, London EC2Y 5AQ 01-588 1815				
Deposit	10.75	(11.19car)		3-Mth
The Money Market Trust — 63 Qn Victoria St, EC4N 4ST. 01-236 0952				
Call Fund	10.75	8.05	11.72	6mth
7-day Fnd	10.69	7.99	11.66	6mth
Oppenheimer Money Management Ltd — 66 Cannon St, EC4N 6AE. 01-236 1425				
Call Fnd	10.42	7.79	11.18	6-Mth
7-day Fund	10.39	7.77	11.15	6-Mth
Dollar	5.25	3.92	5.63	6-Mth

Money Market Bank Accounts

	Gross	Net	Gr Equiv CAR	Int Cr
Adam & Co. plc — 22 Charlotte Sq, Edinburgh EH2 4DF 031-225 8484				
Full Service Cur Acc	10.25	7.50	10.86	Qtr
Aitken Hume — 30 City Road, EC1Y 2AY. 01-638 6070				
Treasury Acc	10.25	7.66	11.10	Qtr
MoneyCheq (1000-£500)	10.00	7.48	10.98	Mth
Mm. Int. Chq. £5,000+	10.25	7.66	11.18	Mth
Allied Arab Bank Ltd — 97-101 Cannon St, London, EC4N 5AD 01-283 9111				
High Int. Cheque Acc	11.00	8.22	12.05	Mth
Bank of Scotland — 38 Threadneedle St, EC2P 2EH. 01-628 8060				
Money Mkt Cheque Acc	10.25	7.66	11.18	Mth

OFFSHORE AND OVERSEAS

MANAGEMENT SERVICES

TRADITIONAL OPTIONS

3-month call rates

A selection of Options traded is given on the London Stock Exchange Report Page.

LONDON SHARE SERVICE

BRITISH FUNDS

Interest Due		Stock	Price £	Last xd	Yield Int.	Yield Red.
		"Shorts" (Lives up to Five Years)				
22Jul	22Jan	Exch. 13¼pc 1987	100¼xd	16.12	13.23	10.98
10 Aug	10 Feb	Treas 10¼pcCv '87	99⅞	14.7	10.28	11.60
24Aug	24Feb	Exch 2½pc 1987	96⅝	10.7	2.59	8.87
6Oct	6Apr	Exch. 10½pc 1987	99⅞	1.9	10.52	11.09
1 Nov	1 May	Funding 6½pc 85-87	98¼	25.9	6.58	10.12
12Dec	12Jne	Treas. 10pc 1987	99⅞	18.12	10.05	11.18
14Jan	14Jly	Treas 3pc 1987	97xd	8.12	3.09	8.67
3May	3Nov	Treas. 12pc 1987	100⅞	29.9	11.92	11.11
26 Jul	26 Jan	Treas 7¾pc 1985-88‡‡	96⅞	19.6	8.00	10.78
10Nov	10May	Exch 10½pc '88	99⅞	6.10	10.99	11.19
14Dec	14Jne	Treas 9¾pc Cv '88	98⅛	18.12	9.95	11.23
1Jan	1Jul	Transport 3pc '78-88	92½xd	25.11	3.24	8.26
25 Apr	25 Oct	Treas. 9½pc '88	97⅛	28.9	9.78	11.24
22 Aug	22 Feb	Treas 11½pc 1989	100⅜	16.7	11.46	11.24
18 Oct	18 Apr	Treas 9½pc Cnv 1989	96⅝	11.9	9.84	11.21
15Nov	15May	Treas 3pc 1989	88⅞	9.10	3.39	8.40
14Dec	14Jun	Treas 10½pc 1989	98⅝	18.12	10.66	11.20
1Feb	1Aug	Exch.10pc 1989	97⅛	25.6	10.29	11.25
29 Mar	29 Sep	Exch 11pc 1989	99⅝	26.8	11.06	11.21
15 Apr	15 Oct	Treas 5pc 1986-89	89	8.9	5.62	9.53
15 May	15 Nov	Exch 10¼pcCv '89	100⅜	9.10	10.22	9.96
15 Jul	15 Jan	Treas 13pc 1990‡‡	104⅝xd	9.12	12.42	11.18
12 Aug	12 Feb	Exch 11pc 1990‡‡	99⅜	17.7	11.06	11.18
22 Sep	22 Mar	Exch. 12½pc 1990	103⅞	18.8	12.07	11.15
8 Nov	8 May	Treas. 3pc 1990	84⅞	2.10	3.55	8.43
15 Dec	15 Jun	Treas 8¼pc 1987-90‡‡	93	18.12	8.87	10.72
25 Apr	25 Oct	Treas. 10pcCv 1990	96⅜	18.9	10.38	11.19
22 May	22 Nov	Exch 2½pc 1990	81⅞	6.10	3.06	8.16
10 July	10 Jan	Treas 11¾pc 1991	101⅞xd	4.12	11.54	11.19
5Oct	5Apr	Funding 5¾pc '87-91‡‡	86⅞	1.9	6.62	9.56

Five to Fifteen Years

Over Fifteen Years

Undated

Index-Linked

INT. BANK AND O'SEAS GOVT STERLING ISSUES

CORPORATION LOANS

COMMONWEALTH & AFRICAN LOANS

LOANS

Building Societies

Public Board and Ind.

Financial

FOREIGN BONDS & RAILS

AMERICANS

AMERICANS—Cont.

CANADIANS

BANKS, HP & LEASING

Hire Purchase, Leasing, etc.

BEERS, WINES & SPIRITS

BUILDING, TIMBER, ROADS

BUILDING, TIMBER, ROADS—Cont

CHEMICALS, PLASTICS

DRAPERY AND STORES

DRAPERY & STORES—Cont.

ELECTRICALS

ENGINEERING

ENGINEERING—Continued

FOOD, GROCERIES, ETC

HOTELS AND CATERERS

INDUSTRIALS (Miscel.)

INDUSTRIALS—Continued

INDUSTRIALS—Continued

LEISURE—Continued

MOTORS, AIRCRAFT TRADES

Motors and Cycles

Commercial Vehicles

Components

Garages and Distributors

NEWSPAPERS, PUBLISHERS

PAPER, PRINTING, ADVERTISING

INSURANCES

LEISURE

PROPERTY—Continued

SHIPPING

SHOES AND LEATHER

SOUTH AFRICANS

TEXTILES

TOBACCOS

TRUSTS, FINANCE, LAND

Investment Trusts

PROPERTY

INVESTMENT TRUSTS

Finance, Land, etc

OIL AND GAS

OVERSEAS TRADERS

PLANTATIONS

Rubbers, Palm Oil

Teas

MINES

Central Rand

Eastern Rand

Far West Rand

MINES—Continued

O.F.S.

Diamond and Platinum

Central African

Finance

Australians

Tins

Miscellaneous

Dividends Paid		Stock	Price	Last xd	Div Net	C'vr	Y'ld Gr's
Aug.	Feb.	Cons. Murch. 10c	£17⅝	14.7	Q60c	4.4	9.9
—		♦Emex Int. fr10p	38	—	—	—	—
—		Greenwich Res.	154	—	—	—	—
Apr	Oct	Hampton Areas 10p	147	23.12	♦1.0	—	1.0
—		♦Highwood Res.	212	—	—	—	—
Fb Jun Ag Nv		Homestake Mining $2	£17⅝	29.10	Q20c	—	0.8
—		♦McFinley Red Lake	195	—	—	—	—
—		♦Musto Explorations	159	—	—	—	—
—		♦New Sabina Res C$1	38	—	—	—	—
—		Northgate C$1	304	9.77	—	—	—
Jan.	July	RTZ	652	27.10	22.0	2.4	4.6
Jan	July	Do. 9½pcLn '95-2000	£137¼	27.10	Q9½%	15.5	17.2

NOTES

Unless otherwise indicated, prices and net dividends are in pence and denominations are 25p. Estimated price/earnings ratios and covers are based on latest annual reports and accounts and, where possible, are updated on half-yearly figures. P/Es are calculated on "net" distribution basis, earnings per share being computed on profit after taxation and unrelieved ACT where applicable; bracketed figures indicate 10 per cent or more difference if calculated on "nil" distribution. Covers are based on "maximum" distribution; this compares gross dividend costs to profit after taxation, excluding exceptional profits/losses but including estimated extent of offsettable ACT. Yields are based on middle prices, are gross, adjusted to ACT of 29 per cent and allow for value of declared distribution and rights.

- ● "Tap Stock".
- * Highs and Lows marked thus have been adjusted to allow for rights issues for cash.
- † Interim since increased or resumed.
- ‡ Interim since reduced, passed or deferred.
- ‡‡ Tax-free to non-residents on application.
- ♦ Figures or report awaited.
- ♥ Not officially UK listed; dealings permitted under Rule 535(4)(a).
- ♦ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- †† Dealt in under Rule 535(3).
- ø Price at time of suspension.
- ¶ Indicated dividend after pending scrip and/or rights issue: cover relates to previous dividend or forecast.
- ♦ Merger bid or reorganisation in progress.
- ♦ Not comparable.
- ♦ Same interim: reduced final and/or reduced earnings indicated.
- § Forecast dividend; cover on earnings updated by latest interim statement.
- ‡ Cover allows for conversion of shares not now ranking for dividends or ranking only for restricted dividend.
- ☆ Cover does not allow for shares which may also rank for dividend at a future date. No P/E ratio usually provided.
- ‖ No par value.

B.Fr. Belgian Francs. Fr. French Francs. ♦♦ Yield based on assumption Treasury Bill Rate stays unchanged until maturity of stock. a Annualised dividend. b Figures based on prospectus or other offer estimate. c Cents. d Dividend rate paid or payable on part of capital, cover based on dividend on full capital. e Redemption yield. f Flat yield. g Assumed dividend and yield. h Assumed dividend and yield after scrip issue. j Payment from capital sources. k Kenya. m Interim higher than previous total. n Rights issue pending. q Earnings based on preliminary figures. s Dividend and yield exclude a special payment. t Indicated dividend: cover relates to previous dividend, P/E ratio based on latest annual earnings. u Forecast, or estimated annualised dividend rate, cover based on previous year's earnings. v Subject to local tax. x Dividend cover in excess of 100 times. y Dividend and yield based on merger terms. z Dividend and yield include a special payment: Cover does not apply to special payment. A Net dividend and yield. B Preference dividend passed or deferred. C Canadian. E Minimum tender price. F Dividend and yield based on prospectus or other official estimates for 1986-87. G Assumed dividend and yield after pending scrip and/or rights issue. H Dividend and yield based on prospectus or other official estimates for 1986. K Dividend and yield based on prospectus or other official estimates for 1987-88. L Estimated annualised dividend, cover and p/e based on latest annual earnings. M Dividend and yield based on prospectus or other official estimates for 1985-86. N Dividend and yield based on prospectus or other official estimates for 1985. P Figures based on prospectus or other official estimates for 1983. Q Gross. R Forecast annualised dividend, cover and p/e based on prospectus or other official estimates. T Figures assumed. W Pro forma figures. Z Dividend total to date. Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xd ex capital distribution.

REGIONAL & IRISH STOCKS

The following is a selection of Regional and Irish stocks, the latter being quoted in Irish currency.

Albany Inv 20p	60	......	Fin. 13% 97/02	£98⅝	......
Craig & Rose £1	£14¼	—¼	Arnotts	350	......
Finlay Pkg. 5p	47	+1	CPI Hldgs	42	......
Holt (Jos) 25p	820	+10	Carrol Inds.	141	......
IoM Stm. £1	76	−2	Dublin Gas	18	......
			Hall (R. & H.)	182	+2
IRISH			Heiton Hldgs.	27	......
Fund 11¼% 1988	£97¼	......	Irish Ropes	158	+10
Nat. 9¾% 84/89	£91¾	......	Unidare	285	......

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This service is available to every Company dealt in on Stock Exchanges throughout the United Kingdom for a fee of £875 per annum for each security.

BUILDING CONTRACTS

£31.8m orders for John Lelliot

The JOHN LELLIOTT CONSTRUCTION GROUP has been awarded contracts worth £31.8m. The main contracts division is responsible for the next phase of the refurbishment at Chelsea Cloisters totalling £6m, refurbishment work for the Rosehaugh Co Partnership on residential properties, converting them into luxury flats at Hyde Park Street, W2 (£2.4m) and Evelyn Gardens in South Kensington (£1.75m). Other contracts awarded include enabling work for Scottish Provident in Kensington High Street and a fit-out for Next worth £2m.

The Management fee division has won contracts for an office development in King Street, W1, for CIN Properties worth £6m; the *Whitgift Centre in Croydon* is the subject of a refurbishment, the first phashe of which has started. Offices are being rebuilt in Dover Street retaining the historic facade at a cost of £1.8m. The serial contract for Cullens Stores has been extended to include a further four stores making 40 in total. Mr and Mrs Charles Saatchi have commissioned management fee to refurbish a Mayfair property, for £300,000. The next stage of Sadlers Wells upgrading, the dance studios, starts shortly under a contract worth £130,000.

John Lelliott Design Manage Construct have been awarded the design and build contract of a supermarket shell for Waitrose at St Neots and John Lelliott (Ilford) have been awarded the fitting out contract worth £3m; seven light industrial units in *Colindeep Lane for £2m and* refurbishment Trustees Savings Bank, Putney £317,000. The division has also been awarded *a series of contracts for Underwoods* (Chemists) in Piccadilly, Ilford, Stevenage and High Wycombe.

Resurfacing Abu Dhabi airport

Work has started on the Abu *Dhabi Airport resurfacing* contract awarded to AL-WIMPEY ROADS & CONSTRUCTION (ABU DHABI), a subsidiary of George Wimpey, by the Emirate of Abu Dhabi, public works department. Valued at UAE Dirhams 18.97m (£3.64m), work involves removal of the asphalt upper wearing course and resurfacing with 65 mm thick asphaltic concrete on the 4,000 metre runway and part of the taxiways, together with reconstruction of paved shoulders. Included will *be a Precision Approach Path* Indicator (PAPI) system to replace the visual approach slope indicators. Dut for completion *in April, all works will be carried* out during daily six-hour closure periods betwen 1 1am and 5 pm, to enable the airport to remain fully operational throughout the contract period.

★

Shand Group subsidiary SHAND NORTHERN has won five contracts together valued at £11m. The largest is fo rrefurbishment *of 250 married quarters at RAF* Scampton, Lincoln, for the Property Services Agency. Lasting two years, the £4.4m *medernisation, includes kitchens,* central heating, windows, rewiring, decorating and external works.

In Peterborough, Cambridgeshire, Sand is to undertake the £3.2m construction of a sewage teratment works serving the whole area. The work, lasting 18 months and involving 8,500 cu metres of concrete, is being *carried out for Ames Crosta* Babcock, main contractor to Anglian Water.

Other contracts in the north west include construction of two roads together valued at £3m. Shurtleworth link road, near Padiham, involving 1.8 km of single carriageway and two bridges, will be built over 18 months for Lancashire County *Council. Barbridge bypass,* involving 800 metres of single carriageway, will take 10 months to ocnstruct for Cheshire County Council.

At Mold Sewage Treatment Works, North Wales, Shand is to *undertake tSage 2 extensions to* increase capacity. This 10 month contract, valued at £400,000 will be carried out with consulting engineers *Haiste International.*

Welsh Office places border by-pass work

ALFRED McALPINE CONSTRUCTION has been awarded a contract worth *£15.6m* by the Welsh Office for ocnstruction of the cross border Gresford/Pulford by-pass. Largely paved in *concrete, the by-pass will include* 11 km of dual two-lane road and four km of single carriageway and side roads. The 130-week *contract involving* 19 structures, including bridges and culverts, started this month.

Alfred McAlpine has also been awarded a contract worth £1.59m by the Liverpool Tanning Co for demolition, reneovation and con struction work at Litherland, Merseyside. Phase one involves patrial demolition and renovation of the middle section of the premises, which were burn out 18 months ago, to form a single-storey factory unit. Phase two involves construction of a two-storey amenity facility, and office buildings. Phase 1 of this contract is due for completion in June 1987 and Phase II in March 1988.

Refurbishing the Royal Military Academy

Since EVE CONSTRUCTION'S flotation on the USM in September, the company has obtained over £11.5m orders. At the Royal Military Academy, Sandhurst, the company has a £3.5m refurbishment contract of the east and west Trident buildings at the old college which dates back to 1862. The contract awarded by the DOE/PSA Southern Region, involves the internal and external repair and refurbishment in two consecutive phases of the *male and female offices' quarters* in the east and west wings, reconstruction of the main block porches, underground drainage and roadway resurfacing. Moorfields Eye Hospital, City Road, EC1, has let a £3.2m contract for the phase IIB fitting out and alterations to the original building erected in 1900 and since extended in 1935 and the early *1960s. Completion is due by* Christmas 1987. A contract worth £4.2m has been let by the CEGB for the 1987 refurbishment of one section of the 400 kV Cottam - Grendon and West Burton-Grendon circuits in the *Midlands. The refurbishment* work on this length of overhead transmission line between Northampton and Lincoln is to commence next April.

★

TAYLOR WOODROW CONSTRUCTION (SCOTLAND) has won a contract, *worth £2.7m,* from the Central Regional Council, Viewforth, Stirling, for alterations and extensions to buildings at Alloa Academy, Claremont. The extensions will have a floor area of 2,990 sq metres, including a games hall of 780 sq metres. Work has started with completition scheduled for May 1989. The company has a contract worth over £1m from the Legal and General Assurance Society for construction of a shopping development at 78-90 Argyle Street, Glasgow. The work will comprise demolition of buildings on the site and construction of a three-storey, reinforced concrete-frame building, 31 metres by 28 metres, containing four shop units. Completion of the shop units is phased between October 1987 and January 1988, and *overall completion in spring 1988.*

Mixed batch for Scottish contractor

SHANKS & McEWAN (CONTRACTORS), Glasgow, has improved *its* order book over the past month by £14m plus. Contracts include £3.48m at RAF Leuchars for the PSA; £2.99m for water treatment works at Rosebery for Lothian Regional Council, and inlet works at Paisley sewage treatment works costing £1.4m for Strathclyde Regional Council. Building works valued at £1.1m *for a single-storey factory for SDA at Motherwell Food Park,* and an extension to Raeburn Bricks works at Blantyre are included. Civil works for the PSA at Castlemartin and at Haverfordwest for Pembrokeshire Health Authority helped to swell orders by £2.4m to which has just been added £407,000 for trunk sewer works at Glyncorrwg for Welsh Water, south west division. A design and build contract for a factory in Cambridge at a cost of £228,000 is also due to start. A contribution of £882,000 for building works at Stockton on Tees Hospital, and £747,000 for extensions at Bishopsgarth School, Stockton on Tees, together with sewer works at Seaton Valley for Northumbrian Water, completes the new orders.

★

Contracts worth over £1.5m have been won by FONDEDILE FOUNDATIONS. Pali Radice ground anchors are being installed to new foundations for the Butlers Wharf development in London's docklands under a £751,000 contract awarded by Butlers Wharf Development. Another contract, valued at £651,000 and awarded by North West Water Authority, is for installation of Pali Radice ground anchors to new foundations to dockside structures—part of the Merseyside Estuary Pollution Alleviation Scheme.

Contracts and Tenders

Company Notices

DIARY DATES

Finance

The following is a record of the principal business and financial engagements during the week. The board meetings are mainly for the purpose of considering dividends and official indications are not always available whether dividends concerned are interims or finals. The sub-divisions shown below are based mainly on last year's timetable.

TODAY

COMPANY MEETINGS—
British Empire Securities and General Trust, Butchers Hall, 87 Bartholomew Close, EC, 9.30
[illegible], 43 Cobham Road, Ferndown Industrial Estate, Wimborne, Dorset, 11.00

BOARD MEETINGS—
Finals: Nash Inds.
Interims: Amalgamated Financial Invt., Batleys, Dominion Internat., Firth (G. M.), Porter Chadburn, Radiant Metal Finishing, Southwest Resources

DIVIDEND & INTEREST PAYMENTS— [illegible]

TOMORROW

COMPANY MEETINGS— [illegible]

BOARD MEETINGS— [illegible]

DIVIDEND & INTEREST PAYMENTS— [illegible]

WEDNESDAY DECEMBER 24

DIVIDEND & INTEREST PAYMENTS— [illegible]

FRIDAY DECEMBER 26

DIVIDEND & INTEREST PAYMENTS— [illegible]

CONTRACTS

GEC wins substations contract from Oman

Following its success in obtaining a £17m order from Petroleum Development Oman for six 132 kV substations and associated transmission line connecting two power stations, GEC TRANSMISSION AND DISTRIBUTION PROJECTS has been awarded a further contract, worth £10m for three additional 132/8.6 kV outdoor substations and 150 km of overhead line. The project, awarded on a turnkey basis, links Yibal power station with oil pumping stations in the Qarn Alam area and includes supervisory control and data acquisition (SCADA) and communication systems as well as civil works. The contract has a "power on" date of September 30 1987.

A 273-tonnes/day sulphuric acid plant is to be constructed for Roxby Management Services at a new minerals mining complex under development at Roxby Downs, South Australia. The SA11m (£4.5m) contract has been awarded to SIMON-CARVES AUSTRALIA, a subsidiary of the UK's Simon Engineering.

BABCOCK-MOXEY, Gloucester-based subsidiary of Babcock International, has been awarded a contract to extend the surface mine coal handling plant at British Coal's Gascoigne Wood Mine in North Yorkshire. The £4.5m order is for a crushing station, and is an extension to surface mining equipment previously installed by Babcock-Moxey. The extension involves elevating and extending the two main production route belt conveyors which will feed four crushers able to handle coal at 1,650 tons per hour. Two belt conveyors will be added to feed the coal from the crushers to the conveyor system which feeds the covered stockyard. A through-put of 10m tons of coal per year will be handled by the two main production routes between drift conveyors and the existing rapid loading station. The Gascoigne Wood mine has five mine shafts which give access to the Selby coal field.

★

STONE INTERNATIONAL has been awarded three contracts worth a total of £3.6m. Two have been won by Stone Iberica: £2.9m for the supply of air conditioning systems for 162 Spanish Railways (RENFE) coaches and an initial £440,000 for air conditioning systems and refurbishment of 59 Cuban Railways coaches. The third contract is worth £250,000 and has been awarded to Stone Transportation by British Leyland for geared alternator/regulator systems, providing auxiliary power for the diesel multiple (Sprinter) units being built as part of British Rail's new investment programme.

★

HESTAIR DUPLE has signed an agreement with City-based Havelet Leasing which could be worth £3.25m over the next three years and involve up to 40 of the company's most advanced vehicles. Havelet will purchase up to 10 of Duple's revolutionary new "Integral 425" coaches during 1987, and up to 15 a year in each of the following two years. At current prices this would put a value of up to £3.25m on the deal. Havelet will lease the coaches directly to operators under a unique "operating" scheme.

★

BICC TELECOMMUNICATIONS CABLES has been awarded contracts to supply metallic telephone cables worth £2.5m as part of a national development plan which aims to extend telecommunications throughout Kenya, especially into the rural areas. These contracts cover the supply of aerial and underground distribution cables and drop wires. The cables will be fully filled with a high temperature petroleum jelly suitable for use in tropical climates. Installation will be by the Kenya Posts and Telecommunications Corporation. The cables, to be made in the BICC factory at Blackley, Manchester, will all be shipped to Kenya by June.

★

COMMERCIAL CATERING GROUP has been awarded a contract worth almost £2m by BP. The order is expected to create around 100 new jobs over the next two years in providing on-site facilities for operatives involved in the construction of BP's onshore gas terminal at Dimlington in Humberside. The contract involves provision of buildings, security, cleaning services, sewage disposal, site maintenance, transport, staffing, training and induction as well as catering.

★

A £1.5m contract for a complete flour mill has been won by HENRY SIMON, Stockport (a Simon Engineering company), for Shijiazhuang in the Hebei Province of the People's Republic of China. The order is for equipment to process 300 tonnes a day of locally-grown wheat. Completion is due in early 1988.

★

GRAVATOM INDUSTRIES, Gosport, has two orders worth over £1.5m. The larger, worth over £1m, is for Strachan and Henshaw in Bristol and is for special equipment for the medium active solid waste encapsulation plant that British Nuclear Fuels is constructing at Sellafield in Cumbria.

★

AAH Holdings services subsidiary E. R. TYLER GROUP has been awarded a cleansing services contract by the London Borough of Wandsworth. For 5½ years from February 1, it covers a range of street cleansing and refuse disposal services, and has an annual value of about £1.5m.

Paper-making machinery order

Orders worth £10m have been won by BELOIT WALMSLEY, Bolton, which builds paper-making machinery. One is for a £6.1m project for the Swedish Stora Kvarnsveden company which celebrates its 700th anniversary next year. The other order is from the Portuguese paper-making company Portucel Viana and work on the project, which will provide extra capacity for the mill, is due to finish next year.

★

OCME, Italy, has been awarded a contract worth over £1.5m by Esso Petroleum, for package filling facilities for the lubricants modernisation project at the Purfleet terminal. Installation will start early next year with completion scheduled by summer. Altogether the contract comprises lines for 205-litre barrels, 25-litre drums, five-litre, one-litre and half-litre containers.

★

MATTHEW HALL ENGINEERING has been awarded a £1m contract by Shell UK Oil for modification and maintenance works in connection with the planned 1987 shutdown for maintenance at Shell Haven, Essex. Planning has started for these works which will primarily involve crude distillation unit No 1 and high vacuum unit. Field activities are scheduled for March.

★

Crane manufacturer DAVY MORRIS, Loughborough, has won a £650,000 order for the Ribband super thermal power station north-west of Calcutta. The order, placed through project contractor Northern Engineering Industries, is for 100 of the 400 Series wire rope hoists.

★

The ROYAL DOULTON hotelware and airlines division will begin supplying from January its bone china product for use by British Caledonian Airways. The order is for ware to be used in both first class and super executive class, and is worth over £400,000 a year.

★

Four cryogenic vacuum-jacketed canisters—said to be the first of their kind to be made outside the US—are to be produced under a contract worth more than £100,000 awarded to LAKERS PROCESS ENGINEERING, Sittingbourne. The four canisters, each measuring 2.6 metres high x 2.0 metres diameter, are to be installed at a process plant in Rozenburg, Holland. They will be used to contain and maintain a low-temperature environment around equipment which will handle liquid hydrogen at a temperature of −254 deg C. Lakers is a subsidiary of Kyle Stewart.

Trade fairs and exhibitions: UK

January 15-18
Antiques Fair (04447 2514) — Kensington Town Hall

January 18-22
International Light Show (05884 655) — Olympia

January 20-22
Office and Contract Interiors Exhibition — DESIGN (01-868 4499) — Design Centre

January 22-25
Ideal Home Exhibition (0202 296275) — Metro Exhibition Hall, Brighton

January 23-25
Holiday and Leisure Sepctacular (01-583 9199) — Kensington Exhibition Cenre

January 27-29
Hirex Exhibition (01-688 7788) — Wembley Conference Centre

January 31-February 4
British International Toy and Hobby Fair (01-701 7127) — Earls Court

February 1-5
International Spring Fair (Gift section 01-855 9201, Hardware section 0604 23023) — NEC, Birmingham

February 3-4
Entrepreneurs' Exhibition (01-493 0000) — Royal Garden Hotel, W8

Overseas

January 9-12
International Furniture Exhibition (01-439 3964) — Paris

January 12-15
Middle East Electronics Communications Show and Conference—MECOM (01-486 1951) — Bahrain

January 13-18
International Furniture Fair (01-930 7251) — Cologne

January 14-20
International Oil and Gas Chemical and Process Engineering Industries Exhibition and Conference—CHEMTECH AND ORT (01-221 2043) — Bombay

January 15-18
Travel Exhibition (01-486 1951) — Helsinki

January 18-21
Hong Kong Fashion Week (01-930 7955) — Hong Kong

January 31-February 8
Caravan, Camping, Car, Boat, Garden and Tourism and Leisure Exhibition (01-651 2191) — Hanover

February 21-25
Spring Fair (01-734 0543) — Frankfurt

February 25-March 3
International Fairs: Food; Materials Handling and Warehousing; Packaging and Printing (021-455 9800) — Brno

Business and Management Conferences

January 19
International Business Communications: Long-term finance for commercial property development (01-236 4080) — London Press Centre, EC4

January 20
IBC Legal Studies and Services: The annual company report (01-236 4080) — Portman Hotel, W1

January 21-22
IBC: Control accounting and taxation of bank risk (01-236 4080) — Café Royal, W1

January 22
The Strategic Planning Society: Strategic issues for the 1990s—new frontiers? (01-235 0246) — 6 John Adam Street, WC2

January 26-27
Brunel Management Programme: Managing stress at work (0895 56461) — Brunel University, Uxbridge

January 27
Longman Seminars: Relief from Capital Gains Tax (01-242 4111) — Barbican Centre, EC2

January 27
NEDO: Who benefits from corporate venturing? (01-211 5100) — Café Royal, W1

January 28-30
Insurance and Reinsurance Research Groups: Cargo insurance clauses international workshop (01-236 2175) — Tower Hotel, EC3

January 28
IBC Legal Studies and Services: Takeovers and acquisitions in the US—the key issues (09323 55344) — London Press Centre, EC4

January 28
CCH Editions: The practical implications of the Financial Services Act (01-491 1322) — Hyde Park Hotel, SW1

January 28-29
Euromoney Publications: The gilts market explosion (01-236 3288) — Hilton Hotel, W1

January 29-30
Financial Times Conferences: The Second FT Defence Conference—entering the American market (01-621 1355) — Hotel Inter-Continental, W1

January 30
Oracle Business Information: Basic accounting for life offices (01-727 3503) — CFS Conference Centre, W1

February 3-4
Crown Eagle Communications: Successful public relations (01-242 4111) — Holiday Inn, NW3

February 3-6
INSEAD: Foreign currency options workshop (with Bank America Options Inc) ((1) 60.72.42.14) — Fontainebleau

February 5-6
Venture Corp: Leveraged buyouts in Europe (01-493 5383) — The Dorchester Hotel, W1

February 16
Longman Seminars: Film and television production—taxation and management [illegible] (01-242 4111) — Barbican Centre, EC2

February 17
Longman Seminars: Will drafting and inheritance tax (01-242 4111) — Barbican Centre, EC2

Anyone wishing to attend any of the above events is advised to telephone the organisers to ensure that there has been no change in the details published.

Company Notices

Clubs

WORLD STOCK MARKETS

AUSTRIA

BELGIUM/LUXEMBOURG

DENMARK

NORWAY

GERMANY

ITALY

FRANCE

FINLAND

NETHERLANDS

SINGAPORE

SWEDEN

AUSTRALIA

SWITZERLAND

HONG KONG

SOUTH AFRICA

JAPAN

SPAIN

CANADA

TORONTO

Closing prices December 19

MONTREAL

Closing prices December 19

F—No voting rights or restricted voting rights.

OVER-THE-COUNTER

Nasdaq national market, closing prices, December 19

Continued from Page 27

NYSE COMPOSITE CLOSING PRICES

Continued from Page 27

Indices

NEW YORK

CANADA

NEW YORK ACTIVE STOCKS

Closing prices, December 19

NEW YORK STOCK EXCHANGE COMPOSITE CLOSING PRICES

12 Month High	12 Month Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
26½	16¼	AAR s	.44	1.8	18	195	25⅛	24⅝	24¾	-⅜
30	21¾	ADT	.92	3.4		243	27	26⅝	27	+⅛
33	16½	AFG s	.12i	.4	15	x519	29⅞	29¼	29⅞	+⅜
29	16¾	AGS			18	208	27	26½	27	+⅛
15	7	AMCA			38	7⅛	6	6⅞	6⅞	-¼
62⅞	39¼	AMR			13	3447	56	55¼	56	+¼
27½	23¾	ANR pf2.67		10		7	26	26	26	-¼
16¾	10	ARX	.71t	5.9	11	140	12	11½	12	+⅜
41½	28¾	ASA	2a	5.5		544	37¼	36⅝	36⅝	
18⅝	9¾	AVX			28	312	11½	11¼	11½	+⅛
32	25	AZP	2.72	9.5	9	1559	28½	28⅜	28½	+⅛
55	31⅝	AbtLb s .84		1.8	21	7940	48	47¼	48	+½
32	25	AccoWd.56		2.2	17	513	26⅜	25⅞	26	-⅜
14⅞	9	AcmeC .40		3.6		365	11⅛	10¾	11	+¼
9¼	6⅞	AcmeE.32b		5.0	16	35	6⅝	6¼	6⅜	
22⅞	17½	AdaEx 4.45e		22.		200	19⅞	19⅝	19⅞	+⅜
13⅝	13	AdmM s				317	u15¾	13½	15¼	+2
23⅝	12⅞	AdvSys.45t		8.5	14	114	17¼	16¾	17	+⅛
32⅞	12⅞	AMD				2530	14½	14¼	14¼	-⅛
12⅝	5¼	Adobe				372	6½	6¼	6½	+¼
18⅝	13¾	Adob pf 1.84		12.		18	15⅞	15¾	15⅞	
20¼	16⅝	Adob pf 2.40		14.		104	17¼	17	17⅛	⅛
18⅝	10⅞	Advest .12a		.9	10	244	13¼	12¾	13¾	+¼
66¼	51½	AetnLf 2.64		4.7	8	7829	57	55¼	56	+⅞
54⅝	51⅛	AetL pf3.84e		7.6		3189	52	51¾	51¾	+⅞
71½	34⅞	AflPb s .44		.6	35	414	u71⅞	71¼	71⅞	+⅝
28¾	15	Ahmns .46		2.1	7	5381	22¼	21½	22¼	+⅛
5¾	2⅞	Aileen			43	333	3⅛	3	3	
41⅝	29⅝	AirPrd s .80		2.2	450	2326	36½	36	36	
32	16	AirbFrt .60		2.0	21	602	30	28½	29¾	+1½
20⅝	17⅞	Airlse n				219	18⅝	17¾	18⅝	+⅜
2	¼	AlMoan .60e				67	7-16	13-32	7-16	+1-32
109¾	87¼	AlaP dpf 87		8.6		1064	101¼	101⅛	101⅛	
105½	86	AlaP pf 9		8.8		z110	102¼	102	102¼	+¼
109½	86	AlaP pf 11		10.		z50	106	106	106	+¼
107½	88½	AlaP pf 9.44		8.9		z4550	106⅜	104⅞	106⅜	+1
103½	77½	AlaP pf 8.16		8.2		z620	99	99	99	

Continued on Page 27

NYSE COMPOSITE CLOSING PRICES

Continued from Page 26

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
[illegible]	[illegible]	Orange				333	9	8¾	8¾	
[illegible]	[illegible]	Orient				446	1¾	1⅝	1¾	+ ⅛
[illegible]	[illegible]	OrionC	.76	2.8		351	28	27⅞	27⅞	+ ⅛
[illegible]	[illegible]	Outbrd	.64	2.6	20	1072	25½	24⅞	25	½
41	27⅞	PHH	1.04	3.3	15	401	31¾	30¾	31⅞	- ⅛
77⅝	45	PPG	1.92	2.6	15	2276	75	73	75	+ 1⅜
31½	26	PainW s	.52	1.6	13	3318	32½	31¾	32¼	- ½
9½	4⅛	PanAm				1427	4⅞	4⅝	4¾	

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
35	17⅞	Whittak .60		2.0		246	30⅛	29⅞	30	- ⅛
17¼	10	Wilfred .12		1.2	10	30	9⅞	d	9⅞	9⅞
18½	11⅞	WilcxG .15		.9	9	69	15⅞	15¾	15⅞	+ ⅛
29¾	17⅝	Willams 1.40		5.7		1295	24¾	24⅛	24¾	
12¼	4⅝	WilmEl			30	798	6	5¼	6	+ ½
7⅛	4	WilshrO			21	86	5⅛	4¾	5⅛	+ ¼
50	34⅞	WinDix 1.80		3.7	18	1121	49	46½	49	+ 2⅝
20¾	9	Winnbg .20		1.7	15	649	11⅞	11⅝	11⅞	
8¼	3⅝	Winner				1194	4	3½	4	+ ½
10⅝	5¼	WinterJ .16e		2.0	24	462	8	6¼	8	+ 1¾
64½	38⅞	WiscEP 2.68		4.9	11	1201	54⅝	54	54½	
106	89	WisE pf8.90		8.8		z3900	101¾	101	101	- 2

Continued on Page 25

Sales figures are unofficial. Yearly highs and lows reflect the previous 52 weeks plus the current week, but not the latest trading day. Where a split or stock dividend amounting to 25 per cent or more has been paid, the year's high-low range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividends are annual disbursements based on the latest declaration.

a-dividend also extra(s). b-annual rate of dividend plus stock dividend. c-liquidating dividend. cld-called. d-new yearly low. e-dividend declared or paid in preceding 12 months. g-dividend in Canadian funds, subject to 15% non-residence tax. i-dividend declared after split-up or stock dividend. j-dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k-dividend declared or paid this year, an accumulative issue with dividends in arrears. n-new issue in the past 52 weeks. The high-low range begins with the start of trading. nd-next day delivery. P/E-price-earnings ratio. r-dividend declared or paid in preceding 12 months, plus stock dividend. s-stock split. Dividends begin with date of split. sls - sales. t-dividend paid in stock in preceding 12 months, estimated cash value on ex-dividend or ex-distribution date. u-new yearly high. v-trading halted. vi-in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd-distributed. wi-when issued. ww-with warrants. x-ex-divident or ex-rights. xdis-ex-distribution. xw-without warrants. y-ex-dividend and sales in full. yld-yield. z-sales in full.

AMEX COMPOSITE CLOSING PRICES

Closing prices December 19

OVER-THE-COUNTER

Nasdaq national market, closing prices, December 19

Continued on Page 25

LONDON RECENT ISSUES

EQUITIES

Issue Price	Amount Paid up	Latest Renunc. Date	1986 High	1986 Low	Stock	Closing Price	+ or –	Net Div.	Times Cov'd	Gross Yield	P.E. Ratio
§122	F.P.	2/1	153	135	‡Ashtead Group 10p	150	+2	R3.0	3.5	2.8	14.3
—	F.P.	—	45	27	Australia Inv. Wrts	45	......	—	—	—	—
§§	F.P.	—	67	65	‡Avescop (Reg)	67	......	L0.5	6.6	1.1	17.2
§38	F.P.	28/11	44½	39	‡B.C.E. Hldgs 5p	44½	+1	Rd1.0	3.0	3.2	14.8
135	50	20/2	68	61	British Gas	62½	......	w6.5	2.1	6.2	10.6
§65	F.P.	—	71	63	‡Cap & Reg Prop 10p	66	......	—	—	—	—
175	F.P.	20/1	198	175	Fletcher King 10p	178	......	R4.5	2.5	3.6	15.6
§94	F.P.	6/1	110	108	‡Gaynor Group 10p	109	......	L2.67	2.8	3.5	14.7
§16	F.P.	9/1	55	33	‡Glentree 10p	50	–1	R0.62	1.7	1.8	42.9
§190	F.P.	2/1	208	203	Gordon Russell 5p	207	......	R5.3	2.6	3.6	15.0
§95	F.P.	29/1	108	105	‡Halls Homes&Gdns 5p	104	......	R2.77	2.7	3.8	11.5
§23	F.P.	5/1	28	24	Harmony Leisure 5p	27	–1	10.1	12.4	0.5	21.7
§100	F.P.	—	121	105	‡Hornby Group 5p	105	–3	R3.195	2.8	4.3	11.9
§128	F.P.	—	150	147	Hoskyns Group 5p	150	......	u1.6	5.6	1.5	16.7
§150	F.P.	21/1	170	160	‡Johnson Fry 10p	160	–3	L3.72	3.1	3.3	14.1
§105	F.P.	19/12	137	123	Lloyds Chemists 5p	131	–1	u1.28	3.3	1.4	31.0
§65	F.P.	21/1	67	65	Logitek 5p	67	......	r1.8	3.8	3.8	24.1
§144	F.P.	—	149	145	MIL Research 5p	145	–2	R3.0	3.4	2.9	14.0
§105	F.P.	19/12	105	95	Miss Sam 10p	95	–3	u3.91	2.4	5.8	10.0
§152	F.P.	23/1	158	152	Nobo Group 10p	155	......	r4.75	2.8	4.3	11.8
§60	F.P.	8/1	96	80	‡Northumbrian Foods 5p	91	–2	r1.7	2.5	2.6	19.2
§90	F.P.	29/12	111	98	‡Plumb Hldgs 5p	113	......	Rd3.0	2.3	3.7	16.5
§115	F.P.	12/12	130	126	‡QuartoGr.Comm.$0.10	126	......	R3.195	2.8	3.6	14.2
170	F.P.	19/12	233	193	‡Spandex 10p	233	+3	bd3.0	2.7	1.8	29.2
§135	F.P.	9/1	143	138	Sumit £1	138	......	u3.5	1.7	3.6	—
70	F.P.	9/1	111	90	‡TSB Channel Islands	111	+1	R3.92	3.7	4.4	7.7
§112	F.P.	8/1	120	119	‡Tribble Harris $0.01	120	......	ra3.6c	2.8	2.0	17.6
—	F.P.	—	52	52	Trinova $5	52	......	1.5c	—	2.0	—
¶140	F.P.	7/1	142	128½	Virgin Group 10p	133½	......	L2.2	2.3	2.3	22.2
§97	F.P.	18/12	105	102	Ward Group 5p	102	......	R3.7	2.5	5.1	10.9
§135	F.P.	23/1	148	138	Wilding Office 10p	143	–2	u3.25	2.3	3.2	18.9
104	F.P.	5/12	90	78	‡Woolton Bet'ware 10p	78	......	dR3.7	1.5	6.7	14.2
**	F.P.	—	96	87	Yeoman Inv. Cap. 1p	88	+1	—	—	—	—

FIXED INTEREST STOCKS

Issue Price £	Amount Paid up	Latest Renunc. Date	1986 High	1986 Low	Stock	Closing Price £	+ or –
§100	£10	29/1	11	7½	Essex Water 11¾% Red. Deb. 2002-04	9	......
¶101.41	£10	26/2	11¼	8	do 8⅝% Red. Pf 1993	9½	......
§100	F.P.	—	102½p	101p	Hanover Druce 6¾% Cnv. Cum. Red. Prf. £1	101p	......
§	Nil	3/2	6pm	3½pm	Leisure Invs. 7% Cum. Cnv. Red. Prf. £1	5½pm	–½
¶¶	F.P.	—	100p	94p	Lon. & Edin. Tst. 6%Cv.Cm.Rd.Pf.£1	96p	......
101.61	£10	19/3	11¼	11½	Mid-Kent Water 8¾% Red Prf. 1997	11½	......
§100	£50	15/5	49½	41½	Mid-Sussex Water 11% Red Deb 2012-16	43½	......
—	F.P.	—	100	99¼	Nationwide 11½% 23/11/87	99⅞	......
—	F.P.	—	100	100	Do.11⅛% Bds. 21/12/87	100	......
¶101.87	£10	22/1	11¼	9	Portsmouth Wtr. 8¾% Red. Pf 1996	10	......
§100	£10	29/1	11¼	10½	West Kent Water 12½% Red. Deb.'94-'96	11½	–¼

"RIGHTS" OFFERS

Issue Price	Amount Paid up	Latest Renunc. Date	1986 High	1986 Low	Stock	Closing Price p	+ or –
65	Nil	—	6½pm	6½pm	‡Avesco	6½pm	......
335	Nil	—	36pm	22pm	Avon Rubber £1	30pm	–3
60	Nil	—	10pm	10pm	Marling Ind 10p	10pm	......
14	Nil	—	7pm	6½pm	Manton Bros 10p	7pm	+½
210	Nil	6/2	25pm	22pm	Whitecroft	23pm	......

Renunciation date usually last day for dealing free of stamp duty. a Annualised dividend. b Figures based on prospectus estimates. d Dividend rate paid or payable on part of capital, cover based on dividend on full capital. g Assumed dividend and yield. h Assumed dividend and yield after scrip issue. F Forecast dividend cover on earnings updated by latest interim statement. H Dividend and Yield based on prospectus or other official estimates for 1987. L Estimated annualised dividend, cover and p/e based on latest annual earnings. R Forecast annualised dividend, cover and p/e ratio based on prospectus or other official estimates. W Pro Forma Figures ι Indicated dividends; cover relates to previous dividend; p/e ratio based on latest annual earnings. u Forecast, or estimated annualised dividend rate, cover based on previous year's earnings. ¶ Issued by tender. ‖ Offered holders of ordinary shares as a "rights." ‖‖ Introduction. ** Issued by way of capitalisation. § Placing price. §§ Reintroduced. ¶¶ Issued in connection with reorganisation merger or takeover. ▮ Allotment price. ‡ Unlisted securities market. †† Official London listing. ‡‡ Including warrants entitlement.

CURRENCIES, MONEY & CAPITAL MARKETS

FOREIGN EXCHANGES

Christmas is coming but no one's getting fat

by Colin Millham

CHRISTMAS IS coming and no one expects any excitement on the foreign exchanges this week. US durable goods orders for November will be published tomorrow, and a recovery from the sharp October fall of 6 per cent is expected, but without any great enthusiasm. A rise of 1.5 per cent has been forecast by Money Market Services. The impact on the dollar will be limited by the thin level of trading at this time of year.

Last month the fall in October durable goods orders took the dollar below DM 2.00, but a similar reaction this time seems most unlikely.

Last week the US currency was locked in a narrow range, lacking speculative activity and new factors. Many banks had already squared their books ahead of the year-end.

Commercial demand for the dollar kept the market ticking over, and prevented any build up of pressure on the US currency. The Japanese seemed content with their currency agreement with the US, which has prevented any large movement between the dollar and the yen in recent weeks. It was suggested that the visit of Mr James Baker US Treasury Secretary to West Germany, the UK and France, might bring about a similar agreement with Europe, but there was no news from his meetings with European financial leaders, and the market soon turned its attention elsewhere.

The main item of interest was the Geneva meeting of ministers from the Organisation of Petroleum Exporting Countries.

This seemed to be going well, from Opec's point of view, and optimism about production cuts lent support to sterling, until the simmering row between Iran and Iraq, the two countries involved in the Gulf War, erupted. Even then, the impact on the pound was not great, and there was little movement on the exchanges.

An encouraging November public sector borrowing requirement for the UK, followed by disappointing money supply and bank lending figures also failed to move sterling.

It is unlikely in the present conditions that tomorrow's UK trade figure will have any greater effect on trading.

According to a survey by MMS the November trade deficit is expected to be £900m, compared with £1.53bn in October. The range of forecasts is between a deficit of £750m and £1,120m. The median prediction suggests the current account position in November will have been flat.

A small balance of payments surplus is expected for the whole of this year, but the situation is forecast to deteriorate in 1987, giving a current account deficit of around £1,700m.

The fortunes of the dollar and sterling in the New Year may be linked to political events as much as economic fundamentals.

News that President Reagan is to go into hospital for surgery next month had no impact, when announced last week, but the US arms for Iran scandal still has a long way to run, and the implications for the present Administration are not yet clear.

Assuming the British Government escapes without too much more embarrassment from the book case in the Australian courts the market expects 1987 to be the General Election year in the UK. This is almost certain to add to the nervousness surrounding the pound.

Seasonal factors are preventing much movement on the exchanges at present, but the general expectation in the market is that the dollar will weaken in the first quarter of next year, taking the pound down with it. In other words no great change is expected from 1986.

EURO-CURRENCY INTEREST RATES

Dec. 19	Short term	7 Days' notice	One Month	Three Months	Six Months	One Year
Sw. Franc	⅛-⅞	⅞-1½	5-5⅛	4⅞-4⅞	4⅞-4⅞	3⅞-4⅛
Deutschmark	5⅜-5⅝	5⅜-5⅝	5⅜-5⅞	5⅜-5⅞	4⅞-5	4⅞-4⅞
Fr. Franc	7⅛-7⅜	7⅞-8	8⅛-8⅜	8⅝-9⅛	8½-9	8⅝-8⅞
Italian Lire	9½-11½	10-11½	11-12	11⅛-11⅝	10⅞-11⅛	10⅞-11
B. Fr. (Fin.)	7⅛-7⅜	7⅛-7⅜	7⅛-7½	7⅛-7⅜	7½-7⅞	7⅛-7⅛
B. Fr. (Con.)	7-7½	7-7½	7⅛-7⅞	7½-8	7½-8	7½-8
Yen	4⅞-4⅞	4⅞-4⅝	4⅞-4⅞	4⅞-4½	4⅞-4½	4⅞-4⅞
D. Krone	8⅞-9⅛	9⅛-9⅝	9⅝-9⅞	9⅝-10⅛	10⅛-10⅝	10⅛-10⅞
Asian $ (Sing.)	4-4⅛	4-4⅛	3⅞-3½	3⅛-3⅜	3⅞-3⅞	3⅞-3⅞

Long-term Eurodollars: Two years 6⅞-6⅞ per cent; three years 7-7⅛ per cent; four years 7⅛-7⅜ per cent; five years 7⅜-7½ per cent nominal. Short-term rates are call for US Dollars and Japanese Yen; others, two days' notice.

POUND SPOT—FORWARD AGAINST THE POUND

Dec. 19	Day's spread	Close	One month	% p.a.	Three months	% p.a.
US	1.4295-1.4340	1.4325-1.4355	0.49-0.46c pm	3.98	1.66-1.61c pm	4.56
Canada	1.9733-1.9768	1.9750-1.9760	0.48-0.39c pm	2.64	1.37-1.22 pm	2.62
Netherlands	3.24¼-3.25¼	3.24¼-3.25¼	1⅛-1⅛c pm	4.62	4⅛-⅞pm	3.94
Belgium	59.69-59.89	59.75-59.85	20-14c pm	3.41	51-43pm	3.14
Denmark	10.84⅛-10.87½	10.86½-10.87½	1⅝-1ore pm	1.45	4⅛-3½pm	1.43
Ireland	1.0554-1.0582	1.0565-1.0575	0.15-0.30p dis	–2.55	0.50-0.75 dis	–2.37
W. Germany	2.86⅞-2.88	2.87-2.88	1⅛-1⅛ pf pm	5.48	4⅛-4⅛ pm	5.91
Portugal	213.72-214.74	213.80-214.70	91-124 c dis	–6.03	224-332 dis	–5.20
Spain	193.75-194.47	193.75-194.10	10-35 c dis	–1.39	20-76 dis	–0.99
Italy	1990½-1998½	1993½-1994½	Par-3 lire dis	–0.90	1 pm-2 dis	–0.10
Norway	10.82½-10.86¼	10.85¼-10.86¼	3½-4½ ore dis	–4.42	11⅞-12¼ dis	–4.31
France	9.40½-9.43½	9.41½-9.42½	1⅞-1⅛ c pm	1.99	3⅛-2⅞ pm	1.22
Sweden	9.90¾-9.95	9.93¾-9.94¾	1½-1⅛ ore pm	1.58	3⅝-3 pm	2.33
Japan	233¼-234¼	232¾-234¼	1⅛-1¼ y pm	6.74	4-3¾ pm	6.63
Austria	20.19-20.24	20.21-20.24	9⅝-7⅛ gro pm	5.12	28½-24¼ pm	5.27
Switzerland	2.41-2.42	2.41-2.42	1⅛-1⅛ c pm	5.90	4-3¾ pm	6.42

Belgian rate is for convertible francs. Financial franc 60.35-60.45.
Six-month forward dollar 3.38-3.33 c pm. 12-month 6.45-6.35 c pm.

DOLLAR SPOT—FORWARD AGAINST THE DOLLAR

Dec. 19	Day's spread	Close	One month	% p.a.	Three months	% p.a.
UK†	1.4295-1.4340	1.4325-1.4335	0.49-0.46c pm	3.98	1.66-1.61 pm	4.56
Ireland†	1.3555-1.3580	1.3570-1.3580	0.82-0.72c pm	6.81	2.45-2.35 pm	7.08
Canada	1.3782-1.3800	1.3790-1.3800	0.14-0.17c dis	–1.35	0.65-0.70 dis	–1.96
Netherlands	2.2655-2.2695	2.2660-2.2670	0.14-0.11c pm	0.66	0.29-0.15 pm	0.39
Belgium	41.73-41.80	41.70-41.80	1-3c dis	–0.57	13-17 dis	–1.44
Denmark	7.57¾-7.59¾	7.58¾-7.58¾	1.20-1.70ore dis	–2.29	5.40-6.00 dis	–3.01
W. Germany	2.0040-2.0080	2.0055-2.0065	0.27-0.24pf pm	1.53	0.71-0.66 pm	1.37
Portugal	149½-150	149½-149¾	120-145c dis	–10.62	330-400 dis	–9.76
Spain	135.20-135.54	135.20-135.30	55-65c dis	–5.31	180-210 dis	–5.76
Italy	1390-1393	1391¼-1391¾	5-6lire dis	–4.74	16-17½ dis	–4.81
Norway	7.56¾-7.58½	7.57½-7.58	5.10-5.70ore dis	–8.54	16.60-17.20dis	–8.91
France	6.57-6.58¾	6.57-6.57½	0.95-1.25c dis	–2.01	4.75-5.50 dis	–3.12
Sweden	6.93-6.94¾	6.93-6.94	1.45-1.65 ore dis	–2.68	5.60-5.90 dis	–3.32
Japan	163.00-163.20	163.10-163.20	0.39-0.36y pm	2.76	0.85-0.80 pm	2.02
Austria	14.10½-14.12¾	14.12-14.12½	1.70-1.00gro pm	1.15	3.50-1.50 pm	0.71
Switzerland	1.6805-1.6885	1.6840-1.6850	0.30-0.29c pm	2.10	0.86-0.81 pm	1.98

† UK and Ireland are quoted in US currency. Forward premiums and discounts apply to the US dollar and not to the individual currency. Belgian rate is for convertible francs. Financial franc 42.10-42.20.

MONEY MARKETS

Dull apart from Liffe

LONDON'S FINANCIAL markets were predictably dull last week, in the run up to Christmas and the year-end, but there was one notable exception. That was the high level of volume in the long gilt contract on the London International Financial Futures Exchange. Turnover was between three and five times the level at the same time last year. Big Bang in the City at the end of October is the reason behind the marked increase, although some dealers remain dubious about the substance underlying the trading.

UK clearing bank base lending rate 11 per cent since October 15

Several very large market makers felt in danger of being relegated to the second division even before the season had started, and it has been suggested that these traders feel they have something to prove.

To this extent long gilt volume figures of 25,000 in the middle of December are likely to be the result of churning over of stock. The cash and futures markets in gilts tend to resemble Royal Ascot or a royal garden party at present. They are places to be seen, and to be seen to be important.

This is not a bad thing for Liffe however, because the liquidity generated will bring investors into the market.

A dealer at one of the largest operators on Liffe commented last week that financial futures trading in London would now thrive, no matter what happened elsewhere. If Chicago decides to have 24-hour trading some of the present business in US Treasury bond futures might be lost by London, but the Long gilt contract should insure Liffe's survival.

FT LONDON INTERBANK FIXING

BANK OF ENGLAND TREASURY BILL TENDER

WEEKLY CHANGE IN WORLD INTEREST RATES

MONEY RATES

LONDON MONEY RATES

LIFFE LONG GILT FUTURES OPTIONS

LIFFE US TREASURY BOND FUTURES OPTIONS

LIFFE FT-SE 100 INDEX FUTURES OPTIONS

EMS EUROPEAN CURRENCY UNIT RATES

£ IN NEW YORK

STERLING INDEX

EXCHANGE CROSS RATES

CURRENCY MOVEMENTS

CURRENCY RATES

OTHER CURRENCIES

FORWARD RATES AGAINST STERLING

LONDON

CHICAGO

CURRENCY FUTURES

SECTION III

FINANCIAL TIMES SURVEY

Italian Banking

Italy's financial system is modernising at a rapid pace, the economy is among the fastest growing in Western Europe, the equity market has established itself on the international investment map and banks are becoming more competitive. But no real progress has been made in cutting public spending, politicians are still overly interested in sharing out the spoils of state-owned industry and banks and a few families still control most of the country's largest companies.

ON OTHER PAGES

• Pictures by Alberto Calcinai

Yearning for more modern financial markets

By Alan Friedman

• THE THREE GUARDIANS of Italian finance and banking: Mr Giovanni Goria (far left), the Christian Democrat Treasury minister who has been grappling with Italy's huge public sector deficit; Mr Franco Piga (centre), the chairman of Consob, the stockmarket regulatory authority; Mr Carlo Azeglio Ciampi (above right), Governor of the Bank of Italy, the highly respected central bank which is one of the country's few independent and apolitical public institutions.

IN MANY respects, Italy has in the last three years made large strides in modernising its financial system, with significant progress in both banking and the equity market, with the emergence of numerous new financial institutions, such as mutual funds, leasing and factoring companies and a wide variety of new non-bank intermediaries.

A process of gradual deregulation in the banking sector has seen the start of real competition in corporate lending, an attempt to improve the level of customer service and a general awakening to the realities of the market among Italy's previously lethargic and predominantly state-owned banks.

The growth of the Milan Bourse, spurred by an unprecedented boom between January 1985 and May of this year, has seen the Italian stock market's total capitalisation increase fourfold to more than US$130bn, over the last three years. The boom is now over, in part because the big corporate fund-raisers who have tapped the market for more than US$7bn this year, have satiated themselves. The Milan Bourse is now in a flat period, with more selective buying underway.

The Italian economy remains the fastest growing in Western Europe, with a 2.7 per cent increase in gross domestic product (GDP) this year and a target of 3.5 per cent next year.

Italian industry, revitalised and restructured after seven years of debt reduction, heavy capital investments, cuts in labour costs and the introduction of advanced technology, is more competitive internationally. Italian companies such as Fiat, Olivetti, Ferruzzi, *Montedison and others are* emerging from a generation of provincialism to go out and make acquisitions and seek alliances in France, West Germany and Britain.

Inflation is running at a level of 4.7 per cent, or roughly half the rate of 12 months ago. Interest rates, be they prime or discount rates, have dropped by three points this year and the growth of the M2 money supply, *while above the government's* 1986 target, is slowing to single digits for the first time in five years.

There is a sense, shared by Italian bankers and businessmen as well as foreign investors, that Italy has finally entered the "big league" of international finance and business. From the *corridors of Wall Street invest*ment banks to the new issue departments of the London-based Eurobond market, Italy's star has rarely shined brighter.

All of these positive factors, however, do not mean that Italy has fully achieved a new-style capitalism or a truly modern financial system. Far from it. The country's economic system is still heavily influenced by "family capitalism" and public *companies on the US model* do not really exist. The politicians in Rome, meanwhile, continue to be overly interested in sharing out the spoils of state-run banks and industry. Just below the surface of the apparently "new Italy" it would seem, lies a far more Macchiavellian and Byzantine reality than is com*monly acknowledged.*

This "darker side" of Italy is not an abstract notion. On the contrary, it is frequenetly translater into concrete actions which threaten the country's progress and threaten more directly the modernising process in the country's banking and finance.

Consider the following: the economy's biggest problem remains, as always, the huge *public sector deficit*, and, in turn, the annual public sector borrowing requirement, which this year is running at 14 per cent of GDP, or more than three times the relative level (debt-to-GDP) of the US budget deficit. By the end of this year the total domestic public sector debt of Lire 775,000bn (US$566bn) will *represent 101 per cent of the* 1986 Italian GDP (Lire 767,000bn).

The five-party coalition of Prime Minister Bettino Craxi, once the supposed vanguard ofa new public sector discipline, seems unlikely to achieve any genuine cuts in public spending. This is not merely because tension is rising inside the coalition and a political crisis is at least possible next spring, when Mr Craxi is due to hand over the prime ministership to the Christian Democrats.

The deeper reason is that Italian politicians consistently conceive of public spending in electoral terms. Italy's welfare state, the most generous in Europe, needs to be reformed, but remains a major area of patronage, of vote-getting.

The result is that interest rates, while declining, remain too high and liberalisation of exchange controls—allowing Italians to export their savings rather than use them to buy treasury bonds—remains a painfully slow process.

The "darker side" of Italy is *also* apparent in the uproar over the politically-decided appointments of bank chairmen and general managers at more than 100 state-controlled institutions. Last month saw an undignified "night of shame" (as one Italian newspaper put it) with the coalition parties lustfully sharing out well-paid bank jobs among their supporters.

The most controversial appointment was that of Mr *Roberto Mazzotta*, a Christian Democrat MP who was named president of Cariplo, Italy's biggest savings bank, despite the fact that he was not on the central bank's list of appropriately qualified candidates. Mr Ciriaco De Mita the hard-nosed leader of the Christian Democrats, forced through the Mazzotta appointment and then proceeded to defend it on the basis of "the rules of the game" and *Mr Mazzotta's credentials.*

For many Italian bankers, the Mazzotta appointment represented an affront to the authority of the Bank of Italy, which is still one of Italy's very few independent, prestigious and apolitical public institutions. Reaction to the appointment has been violent, but it is simply an example of the long arm of Italy's feudalistic political parties.

Mr Nerio Nesi, chairman of the Bank Nazionale del Lavoro (BNL), Italy's largest state bank (and himself a political nominee), said: "What is needed is a clear list of criteria for bank nominees, based on banking experience." The chairman of another large bank said in private: "It makes me cringe. It makes me feel embarrased to be Italian."

Mr Marco Vitale, chairman of Arca, one of Italy's biggest mutual funds and a professor of business at the University of Bocconi, said that he was most troubled that Mr Giovanni Goria, the Treasury Minister, attempted to justify and *rationalise the nominations* procedure. "Here we have politicians using their levers to run banks and industry and that must be wrong. If the politicians want to sack and rob banks, we might as well say that Calvi and Sindona were right."

While the Bank of Italy's authority may have been bruised by the issue of bank nominations, Mr Carlo Azeglio Ciampi, the central bank governor, *has* succeeded thus *far* in imposing his authority on an equally controversial matter should Italy's big industrial and financial private sector groups (such as those controlled by Mr Carlo De Benedetti or Mr Gianni Agnelli) be allowed to take control of banks?

Here, the governor has put his foot down, and said no. The Bank of Italy is clearly concerned that if banks were to be owned by industrial groups, it would be difficult, even with specified lending ratios, to avoid the danger of bank funds being channelled back to the shareholder's own companies.

Before West Germany's Deutsche Bank succeeded with its recent US$603m takeover of the profitable 98-branch Italian subsidiary of the Bank of America, strong interest was expressed by both the Agnelli and de Benedetti groups. Both were told there could be no question of an industrial holding group buying the Bank of America subsidiary.

More recently, the Gemina Holding Group, indirectly controlled by Fiat and headed by

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Stockmarket

On the international map

TEN YEARS ago, an American financial analyst, having just finished a long trip to Italy, wrote: "In any case, I go back with the conviction that if Italians will start to better appreciate their considerable strengths and potential, but not before then, the Italian stockmarket may become one of the most attractive of the world.

The writer, in 1976, was clearly ahead of his time. It took the better part of these last ten years for Italian companies to undergo the cultural and managerial changes required to clean up debt-saddled balance sheets, reduce workforces and make the capital investments needed to produce the present healthy state of corporate Italy, which has seen average profits rising by 35 per cent over the last couple of years.

The recapitalisation of corporate Italy, or at least of many of the 200 publically quoted large and medium-sized industrial companies and financial institutions, owes much, if not nearly all, to the impressive growth of the Italian stockmarket. Without the development of the Milan Bourse—and its attendant boom from the end of 1984 to the middle of this year—the big companies would not have been able to replace their costly bank loans with cheap equity finance.

The Milan market's bull run, which saw the total capitalisation of the bourse jump from US$28bn to US$132bn in the last three years, is now over. Milan has grown, new intermediaries have been spawned, more accounts are being consolidated and audited, continuous trading is supplanting the daily fixing of individual share prices, more companies are going public (there is said to be a queue of 100 companies in the wings) and, of course, the market has seen this year the record raising of more than US$8bn from new issues and rights issues.

The Milan Bourse, in short, has moved from being something of a sideshow to being of interest to fund managers on Wall Street, in Tokyo and in the City of London. It is no accident that Nomura and Daiwa, Japan's two biggest securities houses, have just set up shop in central Milan. The boom may be over, but Milan is clearly on the international investment map, and with a total capitalisation equivalent to 24.5 per cent of Italy's gdp, it is no longer a sideshow.

This dynamic growth does not, of course, mean that the Milan Bourse is without problems. If anything, the rapid rise of the market accentuates still further the inadequacies of a bourse which Mr Guido Rossi, the distinguished former chairman of the Consob stockmarket regulatory authority, calls "A market only for insiders, with enormous insider trading, with the same people and the same big banks and companies speculating heavily."

The main contradiction in Milan, therefore, is between the increasing importance of the bourse in Italy's financial system on the one hand and the still provincial behaviour of many companies and players on the other.

There are two sides of the coin: this year has seen 35 new companies come to market, including several important partial privatisations of state industrial concerns. The number of new quotes is treble last year's. The amount of funds raised this year is more than double last year's.

The mutual funds, some 58 of them by now, have attracted L65,000bn (US$47.4bn) from more than two million small savers in the last two years. That is a growth rate, and total level, which is eminently comparable with Britain's unit trust industry.

In all, there are roughly four million investors on the Milan Bourse at present, which Mr Paulo Borroni, of the Stock Exchange Council terms "The size of a good political party, with four million investor/voters."

But Mr Borroni would be the first to admit that the Milan Bourse is full of shortcomings. The famous problem of settlements of share transactions being delayed for several months has still not been fully resolved. And, in spite of a big shake out last May, which saw the BCI index drop by 20 per cent, the Italian investor still looks to short-term capital gains rather than long-term dividend yields.

The market is in a flat period, with more selective buying under way. As one leading new issue manager put it: "This end of year is bad. There is uncertainty about the political situation in Rome, more private savers are redeeming their mutual fund certificates and, now that the big companies have drained the market for their recapitalisation and acquisition ventures, there is not much enthusiasm left."

That, the view of Mr Urbano Aletti, a senior stockbroker, is "precisely what we have worked and hoped for, to achieve a more rational market in Italy. Share prices have now consolidated. We have got what we wanted."

Mr Borroni reckoned, however, that with half of trading still done over the telephone and away from the bourse and many investors still searching only for capital gains, "the lesson of last May has not served enough More people still need to go to school."

Mr Marco Vitale, chairman of Arca, one of the biggest new mutual funds, said that a learning process was under way. "Italy is slowly, and with great fatigue, entering a phase of modern capitalism. We are not there yet, and much needs to be done, but we can achieve it."

Mr Vitale, a former accountant, makes several criticisms of the state of the market and Italian capitalism today, starting with a call for less feudalism on the part of regulators and the old family barons of finance and industry.

His complaints include:

- Company information is still largely inadequate, with a "collusion by international auditing firms which have accepted a standard much below their traditional standards."
- Conditions for listing new stocks are largely inadequate and many newly quoted companies are of poor quality.
- There are still no insider trading regulations.

Mr Vitale reserves his most potent criticism for Mr Franco Piga, the Consob chairman, who has said that creating legislation on insider trading in Italy is a difficult and lengthy process. "I believe that any president of a regulatory authority who says we cannot have regulation of insider dealings should resign immediately," he said.

Mr Vitale's critique of Consob is rather harsh. Mr Piga has laboured, in difficult circumstances, to modernise the supervisory process. He is at work on regulations concerning insider trading. He has certainly achieved more than any of his predecessors since the inception of Consob in 1974. But the Consob is not the Securities and Exchange Commission. It lacks teeth. How else could one explain, for example, the fact that Pirelli, Italy's fifth biggest company and one of a very few genuine Italian multinationals, has never published a consolidated account?

As Pirelli's operating companies are less than 50 per cent controlled by the Italian holding company (the others are based in Switzerland), the company is within the letter of the Consob's ruling on consolidated accounts for all quoted companies—but many in Italian finance wonder whether it is within the spirit.

Guido Rossi, former chairman of the Consob, the regulatory authority of the bourse; outspoken critic of insider trading

Mr Rossi, who is probably Italy's most outspoken critic of the stockmarket, when asked what needs to be done to improve the bourse, replied: "More or less, everything."

He, like Mr Vitale, is critical of Consob for not yet having developed rules on insider trading. He is also concerned that there are no clear rules on public take-over bids—Italy has no take-over panel, no monopolies commission, no clear rules which force companies to come out in the open with tender offers.

Italian companies are still predominantly controlled by shareholders' syndicates, which lump together several minority shareholders who control companies as blocks. These blocks are usually still minority holdings, but under Italian convention provide effective control by the merit of being the "shareholder of relative majority."

When Mr Mario Schimberni, the Montedison chairman, this summer broke the tradition of shareholder syndicates and, thus, the "rules of the game" and started buying big share blocks in the Florence-based Fondiaria insurance group, the old families of Italian capitalism were aghast.

So furious was the 79-year-old Dr Enrico Cuccia, the grand old man of Mediobanca, the powerful merchant bank, that he launched a bitter public battle aimed at stopping Mr Schimberni. Even Mr Gianni Agnelli the Fiat chairman, who likes to stay above the fray, went public and used his Latin to describe the Montedison purchase of Fondiaria shares as "diabolical."

Mr Schimberni's Montedison eventually won the battle and is continuing to increase its shareholding in Fondiaria. But share purchases on the market leading to take-overs, which are daily occurrences on Wall Street, still create sensations in the world of Italian finance.

Mr Rossi also said that Consob should force through better disclosure rules. Half-year company results were still rarities and the information was incomplete, he said. The disclosure of bad debts by banks was not uniform or clear, he added.

These various problems illustrate the other side of the coin—a market which is certainly growing and assuming an important dimension within the Italian economy, but a market which in many areas is still in need of tougher regulation and clearer ground rules.

Alan Friedman

The Economy

Barometer set at fair

ON MOST estimates, the Italian economy should continue to enjoy the relatively fair wind which has delivered a growth rate of close to 3 per cent this year, record corporate profits and rising real incomes.

A striking aspect of the present performance is how Italian companies are exploiting the fundamental change in the terms of trade brought about by the halving of the oil price and the steep fall in the dollar.

Lower import costs are being translated into highly competitive export prices and growing market share. According to the Bank of Italy, export volumes should rise by 5 per cent this year against a general expansion in world trade of 3 per cent. This would have been achieved, moreover, in spite of a strengthening of the lira, whose real value is now higher than at any time since 1980.

The country's traditional propensity to import is still there—volumes will have risen by 7.4 per cent this year—but the trade deficit will, nonetheless, be a modest L6,000bn compared to L23,115bn last year. The current account, meanwhile, should move from a deficit of L8,000bn to a surplus of about the same size.

After remaining flat since a surge in the first half of 1985, capital investment has been growing strongly in the second half of this year, with spending on new machinery advancing by about 4.5 per cent.

Industrial output, meanwhile, has been spurred by domestic demand to a 4 per cent annual rate of growth in the first eight months of the year. After three years of economic expansion, it is now almost back at the average for 1980. Light manufacturing and engineering have registered the fastest growth, with some sectors pushing up output by between 5 and 10 per cent.

Next year's probable growth rate is still a matter of some debate. The Bank of Italy and the Treasury are lined up on 3 per cent (after 2.8 per cent this year and 2.3 per cent in 1985), but the Government is pinning its colours to 3.5 per cent.

If the economy falls short, the targeted public sector deficit of L100,000bn could be in jeopardy. A larger threat to reducing the deficit may, however, be political. The scheduled change of government next spring from one led by Socialist Mr Bettino Craxi to a Christian Democratic-led administration will signal the start of a long pre-electoral period in Italian politics, which could last until the summer of 1988.

This could bring with it recurrent instability and the possibility of early elections. Already, political rivalries within the Craxi government are sharpening alarmingly. The present jumpy and nervous state of politicians is one reason why some observers are arguing the case for early elections. They may not greatly alter the configuration between the parties, but they would settle things by ending uncertainty.

The economic danger of a long pre-electoral period is that the coalition parties will be tempted to ease present policies aimed at cutting the public [illegible] tor deficit. As it is the [illegible] of eliminating the deficit [illegible] interest payments will be [illegible] dim without real reform [illegible] fare spending, which are [illegible] posed to be part of the [illegible] government's programme.

These aim at rationa[illegible] pensions and assistance [illegible] ments and bringing in [illegible] mies in the health service [illegible] changes in the way it is [illegible] The chances of such contro[illegible] sial reforms being passed [illegible] year are not, in any [illegible] wonderful. In a pre-election situation, they may be non-[illegible] tent.

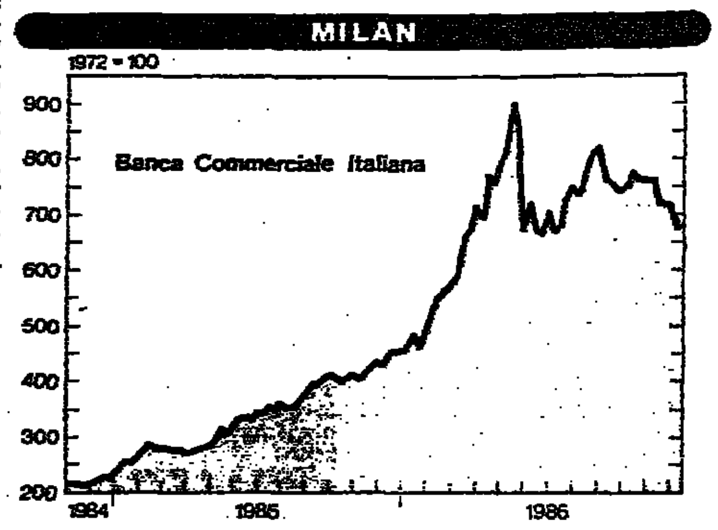
There is always the risk [illegible] new spending plans may [illegible] adopted to buy off politically important interest groups. [illegible] single constant demand [illegible] still greater expenditure [illegible] reduce unemployment, [illegible] remains stubbornly lodged [illegible] about 11 per cent in spite of [illegible] of the best achievements in [illegible] jobs creation in the [illegible] (employment in services expanded in the first half of [illegible] year by 228,000). The present government is committed [illegible] spending no less [illegible] L200,000bn on infrastructure over the next three years which, it says, will create more [illegible] 900,000 new jobs.

The private sector obviously views the possibility of any [illegible] cal relaxation with [illegible] Although corporate indebted[illegible] ness is modest by any standard, real interest rates for financing business activity remain [illegible] the highest in Europe. The [illegible] of Italy's discount rate has [illegible] cut by three percentage points to 12 per cent this year [illegible] expected to lose another [illegible] percentage points next year [illegible] line with a fall in inflation [illegible] per cent. Inflation this year [illegible] have averaged 6 per cent.

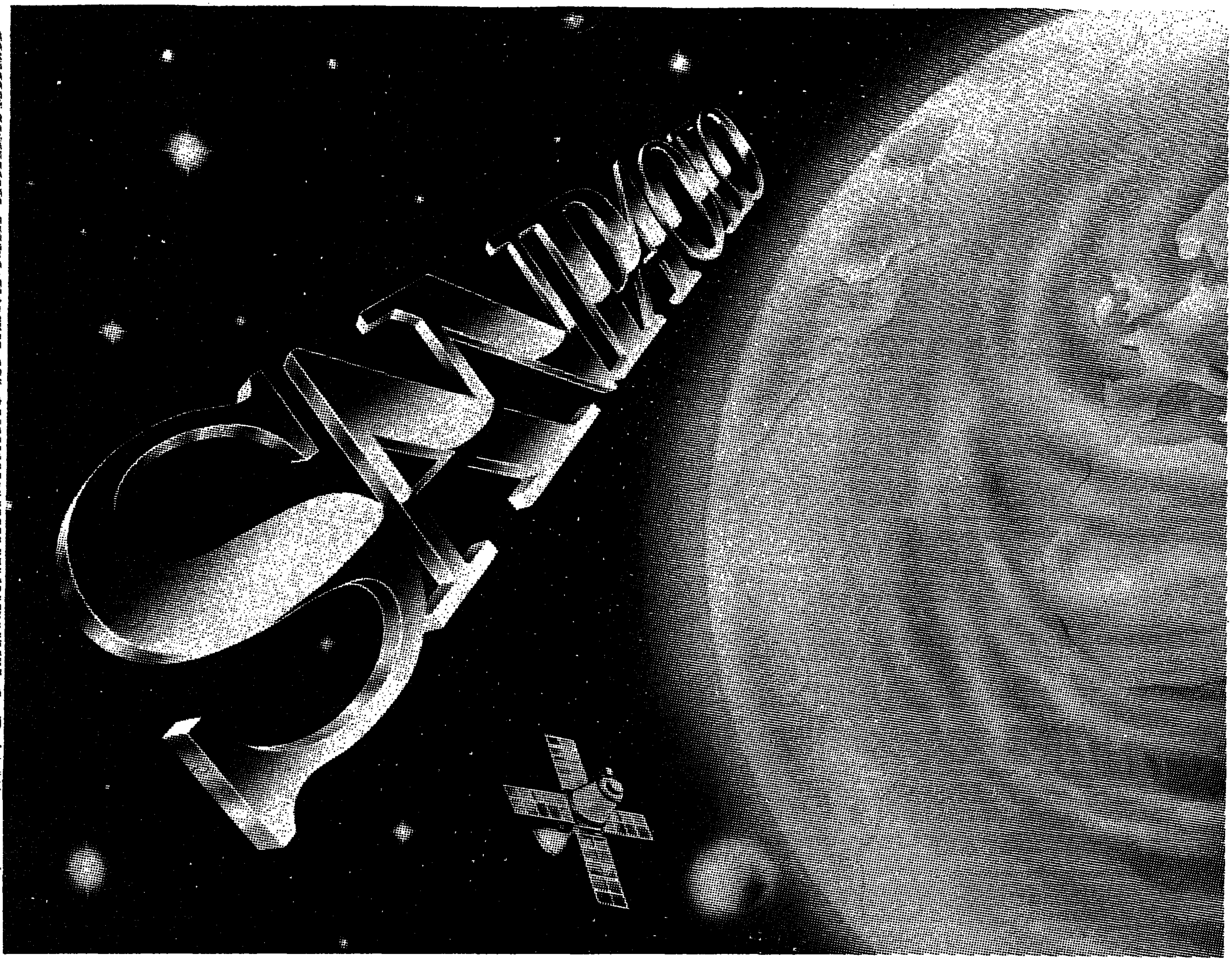
The outcome of the pr[illegible] pay negotiations covering [illegible] public and private sector [illegible] ers will obviously be an im[illegible] tant influence on costs [illegible] prices. Real gross salaries [illegible] risen by about 1 per cent [illegible] year and the Bank of [illegible] expects the pay deals to [illegible] annual average pay rises [illegible] the next three years of 6.[illegible] cent, the impact of which [illegible] unit labour costs will [illegible] reduced to 4 per cent, thanks [illegible] productivity increases.

- Giovanni Goria profile [illegible] page 7.

John Wy[illegible]



AN ITALIAN BANK IN THE WORLD



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The boom in unit trusts

Sector attracts $48bn in only two years

THE BOOM months may be over on the Milan Bourse, and net receipts have been on a steady decline since July, but Italy's unit trust movement, just past *its second birthday, remains an* important part of the country's developing capital markets.

Authorised initially by legislation in 1983, the unit trusts (or mutual funds) quickly established themselves as the hottest new investment tool around. As the Milan market went through its extraordinary bull run of 1985 and the first half of this year, the unit trusts kept pace, growing more dramatically than comparable sectors in other European countries.

Since 1984, some 58 unit trusts have sprung into existence, attracting a total of US$47.6bn in two years, or nearly as much as the UK unit trust industry has attracted over the last generation. It took 20 months (from July 1984 to February 1986) to attract the first million savers to the unit trusts: the second million investors subscribed in only five months (from March to July this year) and the level of unit trust holders now stands at 2.4m.

Obviously the boom was an important reason for the rapid growth, but so was the mere appearance of unit trusts, which were free of capital gains taxes and provided a managed portfolio of government securities and equities. Italy is a country which still has exchange controls and also the highest savings ratio in the world (about 23 per cent of disposable income).

The 58 trusts now operating (the number is expected to reach 72 by the early months of the New Year) hold shares equivalent 12.3 per cent or the US$132bn capitalisation of the Milan Bourse. During the boom period the trusts poured liquidity into the market, thus helping to inflate prices. Now, the trusts are viewed by Milan financial analysts as playing a stabilising role. The market may be flat, but the trusts are not disinvesting notably.

As of October this year, the portfolio composition of the 58 unit trusts showed that roughly 27.8 per cent of the US$47.6bn was invested in Italian shares. About 56.4 per cent of the overall trust movement was placed in Italian government securities and 5.4 per cent and 2.5 per cent respectively were in corporate straight and convertible bonds.

Although the unit trusts may invest up to ten per cent of their portfolio in foreign securities without incurring a 15 per cent non-interest bearing deposit *requirement, the Italian unit* trusts are, on average, not invested abroad up to this limit. This is generally explained not as a lack of interest, but because of a lack of trained fund managers with international investment experience and know how.

At home, where the leading 20 quoted shares on the Milan *Bourse account for 75 per cent* of total market capitalisation, the unit trusts have a substantial presence. The unit trusts now own, collectively, 16 per cent of Generali, the biggest

Italy's Unit Trusts

● Figures in billions of lire in 1986

	Gross receipts	Redemptions	Net receipts
Jan	4,576	268	4,308
Feb	4,621	309	4,312
March	4,823	459	4,364
April	6,681	529	6,152
May	6,292	589	5,703
June	4,706	1,162	3,544
July	3,077	708	2,369
Aug	2,310	256	2,054
Sept	2,697	737	1,960
Oct	2,689	942	1,747
Nov	2,372	1,402	970
Total (11 months)	44,844	7,361	37,483

Total funds held by 58 unit trusts as at November 30, 1986: 65,264. ($47.6bn.)

insurance group, 18.5 per cent of Olivetti, nearly 16 per cent of the state-controlled Banca Commerciale Italiana, more than 30 per cent of Montedison and nearly ten per cent of Mediobanca the merchant bank. That is a powerful position to be in, and helps to explain why a minor controversy has developed over whether the Italian unit trusts should have voting rights at annual shareholders' meetings.

The average performance of the unit trusts, since the shakeout on the bourse last May, has become distinctly lacklustre of late. While the average performance over the last 12 months is an impressive 50 per cent for equity-oriented funds, the six-month performance (to October 1986) was 5.6 per cent, and the three-month performance just 2.4 per cent.

Mr Jody Vender, a young investment banker who is starting his own unit trust, said recently, "the mutual funds have only just begun their period of growth in our country and I believe they have reached only a certain segment of the saving community. There are areas of savings which are still virgin and unexplored".

Mr Marco Vitale, chairman of Arca, the fourth largest unit trust with lire 5,000 bn of assets and 128,000 savers, said that he was proud of Arca's performance since January of this year—26 per cent. But performance alone should not be the criterion for judging the new unit trusts, he said in a market traditionally coloured by a desire for short-term capital gains.

"We want repeat investors, long-term small savers".

Mr Vitale reckoned that the flow of liquidity from the unit trusts certainly was an important aspect of the 1985-1986 market boom, and a sizeable correction was required. As the big groups had now tapped the market for record sums it was no longer of use to them.

But other companies would come to market and the unit trusts would continue to play an important role, albeit in a more selective environment, he said. Indeed, up to 147 companies are hoping to offer new issues on the bourse over the next three years, which would nearly double the number of quoted companies.

There are various problems in the Italian unit trust industry, according to analysts and the fund managers themselves. Among them is the fact that several of the funds are operated by the big banks and their own investment directors, or former directors. That tends to reinforce the market rigging which traditionally has occurred among big banks and insurance groups on the bourse.

A key problem is that as unit trust industry is very young in Italy, many of the 2.4m savers do not fully understand the concept of a medium-term hold, and tend to confuse the movement of unit trust values with those of shares. A culture of medium-term investment in unit trusts has certainly not yet taken root in Italy, and, until it does, the trusts will be at least somewhat susceptible to the whims of inexperienced savers.

Alan Friedman

● Marco Vitale, chairman of Arca — "we want repeat investors, long-term small savers," he says
● Right : the Milan Bourse.

The Bank of Italy's role

Preparing for further reforms

IT IS widely held inside and outside Italy that the Bank of Italy is something of a jewel among the country's institutions. In fulfilling its responsibilities for managing and supervising the banking and credit system, it has remained remarkably faithful to its own *standards and concepts of the* national interest. Crucially, it is largely free of the party political rivalries which permeate so many aspects of national life.

Most leading politicians are aware of its value and importance and are sensitive to any accusations that they are threatening its hallowed independence. In practice, of course, this independence is conditioned by the bank's relationships with the government of the day and by the need to organise a measure of political consensus in support of its regulation of the credit system.

There is probably no period which is not a testing one for the bank's relationships with the *politicians. They need to be* handled with skill by both sides and, generally, the bank makes a better job of it than the politicians. The bank's present leadership, under Dr Carlo Azeglio Ciampi, has scored some resounding successes in recent years: from organising a private sector rescue for the *Banco Ambrosiano to the gov*ernor's effective proselytising of the case for urgent and effective restoration of public sector finances.

In addition, the bank has been propelling the Italian financial system with cautious skill towards the acceptance of market forces and away from administrative controls.

The task of organising political support for necessary legislative initiatives is at the forefront of the bank's present activities because of the rapid changes in global financial markets. If Italy is to position itself to become the third industrial and economic power in Western Europe after West Germany and France, it needs to cover a lot of ground very quickly in liberalising and modernising its financial system.

Dr Ciampi's role in this activity is obviously crucial and considerably more effective than many of his critics realise. The political strength of his position derives both from the fact that he is not appointed for any fixed term, unlike most other central bank governors, and that he is able to mobilise the bank's considerable resources behind clearly thought-out positions.

The central bank is now devoting a lot of its energies to developing the appropriate policies and proposals for both liberalising the Italian credit system and regulating it more efficiently. Much emphasis is being put on the need to update the 1936 Banking Law, the legislative core of the banking system, and to integrate into it the myriad of amendments which have tended to respond to new problems and developments on a piecemeal basis.

During the course of several speeches this year, Dr Ciampi has disclosed his priority aims for internal developments within the credit system and for changes in the regulatory framework.

In the first category falls the need for faster development of merchant banking in Italy. He is particularly concerned to ensure a supply of new equities capable of soaking up some of the huge liquidity flowing through investment funds. He wants intermediaries which will "make a significant contribution by advising businesses to seek stock market listing when their prospects and size are adequate."

In his annual speech to Bank of Italy shareholders at the end of May, and on other occasions, the governor has called for "a quantum leap" in the use of information to raise the efficiency of banking services. The ramshackle nature of the payments system, which imposes delays on cheque clearing many times longer than in Britain or West Germany, is a particular source of concern.

Many Italian banks have invested heavily in new technology without delivering all of the expected gains. As Dr Ciampi has said, benefits can be obtained "not so much through additional investment in equipment, as through better application of existing systems."

On the regulatory front, the governor and his colleagues are emphatic about the need to legislate for industrial companies taking equity participation in banks. With the corporate sector flush with money and displaying a growing interest in acquiring holdings in banks, Dr Ciampi believes that the central bank can no longer hold the line by relying on "moral persuasion." Increasingly in practice, it is a matter of the bank dissuading company X from taking anything more than a nominal stake of under 5 per cent in bank Y.

The fear is clear enough: that a bank could become the financial tool of an industrial company to the eventual detriment of them both. The Italian past is rich in precedent. Many of the country's large banks had substantial holdings of corporate equities at the time of the depression and were left holding worthless paper when the companies crashed. IRI, the Italian state holding company, was borne out of this debacle in 1933 and became the owner of the casualty banks and of the companies.

*The Bank of Italy is not seek*ing to keep companies out of banks altogether, but it wants to limit their holdings and regulate the nature of the relationship in such a way as to ensure independent management of the banks.

Another regulatory priority is the introduction of "forms of prudential control" on non-bank businesses which are becoming such important vehicles of financial change. One aspect concerning Dr Ciampi is whether there is enough public understanding that institutions such as investment funds, do not have access to lending of last resort.

"This needs to be understood both by these businesses, which are responsible for the management of financial resources, and by savers, who must be aware that the value of their investments is variable and depends on market developments."

The growing sophistication of banking and financial markets risks leaving behind members of the Italian savings bank sector. There are two aspects to the central bank's thinking on their future. One is the need to remove residual regulations, which are both irrelevant and an obstacle to their participation in competitive banking.

The other is the need to achieve greater concentration of savings banks, many of which are too small in capital and geographical reach to be able to offer anything like a full range of banking services.

The difficulty is that mergers *are blocked by a mixture of* local pride and entrenched interests. Only once in the last six years have two savings banks pooled their assets. One idea being examined in the bank is to draw a distinction between the management of their banking activities and that of their charitable and communal service work (which is the destination of up to half their profits).

The attraction of this approach is that all members of boards of directors would retain a function, either in overseeing the bank's management or its charitable work. Thus, a merger would not mean the liquidation of an entire board or boards.

This approach might also provide the eventual basis for electing the presidents and vice-presidents of savings banks. At present, this is the increasingly controversial prerogative of the politicians in association with the central bank.

In November, the parties made a superhuman effort to clear a backlog of 130 posts and in the process attracted much public ridicule, which even touched Dr Ciampi and Dr Mario Sarcinelli, the Director General of the Treasury. Both men turned up for an inter-ministerial committee which was supposed to endorse a list of nominees, informally agreed by the parties and acceptable to the central bank, only to find that a fresh political squabble had broken out.

They had to withdraw to allow a ministerial meeting to turn itself into a party committee, which took until the early hours of the morning to resolve the problem. Everyone, including some party leaders, is now pondering on how to avoid such unseemly wrangles in the future.

John Wyles

Foreign banks

Shrewd move by Deutsche Bank

THE MOST important development in Italy's foreign banking community this year was the purchase this month by Deutsche Bank of West Germany of the 98-branch Banca *d'America e d'Italia (BAI),* the profitable Italian bank subsidiary of the Bank of America.

Deutsche Bank, in paying US$ *603 million for* 98.3 per cent of BAI may have paid a hefty premium over book value (US$ 321 million), but the West German banking group is generally reckoned to have made a shrewd acquisition. In one leap, Deutsche Bank now moves from a one-branch Milan operation to a nationally distributed branch network with US$12.5 bn of total deposits, US$ 4.2 bn of total assets and 0.9 per cent return on *assets, double the average* among Italian banks. The Bank of America subsidiary has a successful presence in retail banking and also runs the 1.3 million cardholder Visa-Bankamericard plastic card system.

The Deutsche Bank takeover also represents the largest foreign takeover of an Italian-based bank, even if the transaction was between two foreign banks. The previous record was last year's US$130 million takeover by Citibank of the state-owned 43-branch Banca Centro Sud, another cash-rich network with US$1 bn deposits.

The Bank of Italy says that it is happy for foreign banks to increase their presence in the *Italian market, in part in order* to spur competition in the retail field where Italian banks are notoriously inefficient.

With the Deutsche Bank acquisition, Italy's foreign banks (Midland of the UK was the latest to arrive last January) now operate 196 branches and 55 representative offices up and *down the Italian peninsula.* Two-thirds of the foreign banks are headquartered in Milan, which with its Northern European business environment is considered more suitable than Rome.

The Italian economy is certainly on a growth phase and Mr Giannino Parravicini, president *of the Italian Bankers' Associa*tion (ABI) notes that "this market is too interesting to be ignored by foreign banks". But four foreign banks made losses last year and Mr Parravicini acknowleges that, as most foreign banks lack a domestic deposit base, the high cost of interbank funding is making margins tighter than ever. The effect of costly interbank deposits and the need to compete with Italian banks, which are lending at one or two points below the prime, is causing what Mr Parravicini terms, "a process of severe adjustment" among foreign banks.

While several banks found themselves in difficulties last year, losses were made by Standard Chartered and Irving Trust, no foreign bank has performed as disastrously as the troubled Barclays Bank subsidiary in Italy.

Barclays has faced a range of problems in recent years, including an embarrassing involvement with a machine *tool leasing* venture whose president was placed under criminal investigation for fraud. That venture resulted in L40bn of write-offs which were struck in the years 1982, 1983 and 1984.

Beyond the leasing fraud, however, Barclays, by its own admission, embarked upon a dramatic expansion programme *which saw the bank trying, in* the words of one executive, "to be all things to all people." Although Barclays was right to expand in financial services, it has bloated its staff numbers in recent years and made a strategic error in operating downmarket to serve small and medium-sized customers. The bank's loan portfolio of L550bn was, at the end of 1984, riddled with bad debts.

The result was that last year Barclays in Italy incurred losses totalling L52bn, a deficit which wiped out the bank's L37bn nominal Italian capital base and required an emergency rescue (a capital injection of L53bn) from the London head office.

The crisis at Barclays' Italian headquarters in Milan led to the dismissal of 172 employees last May, at the time equal to roughly half of Barclays branch staff. This action, unprecedented in Italian banking, where strong trade unions have prevented similar dismissals, *did not succeed as planned.* The unions announced strikes, a difficult summer of negotiations ensued and, on October 15, Barclays withdrew the dismissals.

What it did instead was to pay off 46 middle-level executives and 76 clerical staff with redundancy money, thus achieving at least part of *its staff cuts* by means of "resignations" rather than dismissals.

The problem of heavy bad debts was compounded by the fact that Barclays' revenues in Italy were not last year, and are not this year, sufficient to cover operating costs. The present year is likely to end in a L10bn to L20bn loss. Next year is also expected to see Barclays' Italian operations in loss and the bank hopes that in 1988 it will break even once again.

To repair the damage, the bank is taking several drastic steps. Taken together, the measures amount to a wholesale restructuring of Barclays' strategy and services in Italy.

The first step was to dispatch from London Mr Giles Cutayar, an assistant general manager, who has been charged with putting out the fire. Mr Cutayar was initially scheduled to stay only until the end of the year, but he has now been made a permanent executive of the Italian bank subsidiary.

His arrival was accompanied by the London capital injection to cover loan write-offs. Mr Gian Arco Petrelli, managing director of the bank, meanwhile was restructuring the poor quality loan portfolio.

When Barclays' problems began, in 1984-85, the L550bn loan book was 60 per cent retail and 40 per cent corporate. In other words, L330bn of the loans were retail. Mr Petrelli found a startling L100bn of problem debts, 70 per cent of which he decided were non-recoverable. The 1984 accounts therefore, included a L25bn write-off, which resulted in a small 1984 loss. The 1985 accounts included a L45bn write-off, plus *L7bn trading losses,* hence the L52bn deficit.

The remaining L30bn problem loans were expected to be recovered, and L10bn has already been collected.

The remaining L20bn bad debts, which Barclays' says it hopes to recover in the next four years, have been removed from the loan portfolio (Mr Petrelli says that they have been "frozen"), but are not provided for otherwise.

The bank called in most of the remaining retail loans, and now has only L33bn of retail lending in its portfolio, against L330bn 18 months ago. The loan book stands at L550bn (around L100bn of new *business* has replaced the L100bn bad debts), of which L517bn is in corporate lending.

The number of loan accounts has also been drastically reduced, from a total of 2,000 to just 800. Earlier the 2,000 accounts consisted of 1,600 retail and 400 corporate accounts. Today, there are 320 retail and 470 corporate loan accounts.

The calling-in of retail loans accounts was accompanied by a campaign to get rid of most retail depositors as well. In many cases, the bank simply wrote letters to clients telling them that their accounts were too small and should be taken elsewhere. The goal was to save on handling costs.

Meanwhile, the bank moved to eliminate many of its services: it has ceased operating in many areas, including payment of utilities, bills, taxes and pensions, custody of share certificates, strong boxes and loans to individuals and small firms, cashing *and issuing of* travellers cheques and domestic collection services.

The *staff* reductions were another attempt at cost savings, and the prospect of more "resignations" over the next year or so cannot be ruled out. Mr Cutayar has also been reorganising management lines. Some senior executives are believed to have been asked to leave and several people from the UK head office are likely to arrive shortly.

Because of the bank's cuts and problems, its deposit base has been eroded substantially, from L107bn down to little more than L60bn in less than a year. The aim now is to concentrate Barclays banking activities in Italy in the corporate, treasury and correspondent areas as well as limited retail banking.

The main problem facing managers such as Mr Cutayar and Mr Petrelli is that in spite of the "180 degree turn" they say they have made, it will not be easy to reduce costs *and* to generate profitability in new business areas overnight. Barclays is embarked upon an essential restructuring programme, but it will still face a difficult 1987.

Alan Friedman

Branch network expansion

Banks seek a less restrictive system

THE CREDIT SYSTEM is cushioned and cosseted by the Bank of Italy. The "staid old maid" of the Via Nazionale in Rome often seems reluctant to open the doors to real competition.

It is a widely held view, with which even former officials are willing to agree, that the central bank operates a conservative and protectionist policy.

Expansion of branch networks is strictly managed by the Bank of Italy's supervisory department. Every three or four *years a national branch plan is* prepared under which new openings or branch transfers are authorised.

The 1986 plan, announced in June, provided confirmation, if any were needed, that change in Italian *banking is cautious and* controlled.

It had been eagerly awaited by many of the retail banks. For four years their programmes for branch networks had remained fixed within the framework of the central bank's 1982 plan. But the overall reaction was that of disappointment when the authorities' latest decisions were revealed.

"We were expecting that the Bank of Italy would loosen its grip on branch expansion. Instead it has become more restrictive," complained a senior officer at one of the country's large banks.

The central bank authorised 504 new branches against a total request for 2,787, thereby allowing an expansion of 3.9 per cent on existing numbers. This was a significant tightening compared with 1982, when the plan permitted a growth of 5.1 per cent. Four years ago Italy's banks sought authorisation for 2,814 new branches but were granted 621.

The two categories which include Italy's principal banks appear to have been treated poorly. Both the public law credit institutions (six banks, of which Banca Nazionale del Lavoro, Instituto Bancario San Paolo di Torino, and Monte dei Paschi di Siena are the largest) and the three national interest banks (Banka Commerciale Italiana, Credito Italiano and Banco di Roma) have been allowed to expand their existing networks by only 3 per cent.

Yet *measured on* the number of their applications which the central bank approved, the two categories did not fare badly. The public law credit institutions requested 199 new branches and were granted 52, a success rate of 26.1 per cent. The national interest banks did even better, achieving a successs rate of 44.3 per cent with 27 new *branches authorised from 61* total applications.

Indeed, Mr Antonio Nottola, Banco di Roma's general manager responsible for planning, said that his bank was reasonably well satisfied with the *number of authorisations* obtained this year. Banco di Roma asked for permission to open 28 branches and was allowed 11.

But Mr Nottola admitted that without the constraints imposed by the supervisory authorities, the bank would have sought to establish at least twice as many new branches.

The category treated least generously were the savings banks. Like the public law credit institutions and the national *interest banks*, the "casse di risparmio" were seeking a relatively modest level of expansion. Requests for new branches aimed at enlarging the category's overall branch network by 13.9 per cent, but the authorities approved expansion of only 2.5 per cent.

There is speculation that the parsimonious treatment meted out to the "casse di risparmio" (savings banks) was in some way a rebuke from the central bank. For several years the Bank of Italy has wanted to see mergers of the smaller members of the savings banks. So far the authorities' calls have fallen on deaf ears.

Given the apparent aim of creating larger banks, it therefore seemed contradictory that the 1986 branch plan heavily favoured the smallest banks. *The rural and trades savings* banks ("casse rurali ed artigiane"), which are usually extremely small local institutions with just one or two branches, enjoyed privileged treatment from the Bank of Italy.

Although the category won approval for only 13.5 per cent of the new branches it was seeking, allowed expansion of the existing network amounted to 8 per cent. This was more than twice the average for the banking system as a whole.

ITALY'S TOP TEN BANKS

• Figures for 1985 compiled by the San Paolo research department

Bank	Total assets* (billions of lire)	Net profit*	Return on assets (%)
Banca Nazionale Del Lavoro	95,901	242	0.25
Banca Commerciale Italian	69,388	101	0.15
Banco Di Roma	60,254	46	0.08
Istituto San Paolo Di Torino	56,569	439	0.78
Credito Italiano	55,370	94	0.17
Cariplo	51,780	122	0.24
Banco Di Napoli	50,408	17	0.03
Monte Dei Paschi Di Siena	43,731	179	0.41
Banco Di Sicilia	31,316	21	0.07
Banca Nazionale Agricoltura	20,454	43	0.15

* All figures refer to main bank operating company and associates

The total mumber of branches run by the "casse rurali ed artigiane" was 1,200 at the end of 1985 and the branch plan authorises the opening of a further 96.

Bank size is a matter on which the Bank of Italy seems schizophrenic. It encourages mer*gers and the development of* large institutions capable of offering full banking services with economies of scale, yet its backing continues to be given to tiny local banks.

Although the big banks probably disagree, only one merits the label of *national* bank. At the end of 1985 the Banca Nazionale del Lavoro (BNL), Italy's largest bank in terms of assets, had 414 domestic branches with which it achieves a wider geographical coverage than any other bank.

Banca Commerciale Italiana (Comit) is the country's second largest bank, measured by assets, and had 444 branches at the end of 1985. Even with a branch network larger than that of BNL, Comit's domestic coverage excludes regional centres like L'Aquila, Potenza and Campobasso as well as several provincial capitals.

Under the present system it is difficult for Italian banks to make significant leaps in size even over a long time-span. The periodic branch plan, coupled with the innate caution of the *Bank of Italy*, puts a firm brake on change.

Not surprisingly, the branch plan is not free from controversy. Questions are asked about the criteria which are *used to decide which* banks should be allowed to expand and where expansion should be permitted.

The Bank of Italy explains that three aims underlay the 1986 branch plan: improvement of the availability of banking services, reinforcement of services in those areas which are now poorly served, and modification of the country's branch network to take account of the development of new residential or industrial areas.

Priority was given to requests *for new branches in communes* where banking services are completely lacking. Indeed, one-fifth of this year's authorisations will bring branches to communes without banks.

In deciding which banks should be allowed to expand, the Bank of Italy gave preference to those which had programmes for rationalising their branch networks. The supervis*ory service also took account of* the strengths, or weaknesses, of individual banks.

Besides being controversial, this year's branch plan also attracted attention because there should be no more before 1989, the deadline for Italy to observe the European Community's directive on bank establishment. There has been speculation that the 1986 plan might therefore be the last.

But Bank of Italy officials do not rule out the possibility of further exercises like this year's. They say that the Brussels directive is concerned solely with freedom of entry. Many bankers say, however, that while such an interpretation may comply with the letter of the law it certain ly does not reflect its spirit.

With 1989 only two years away bankers will soon know if the spirit still prevails of if the Bank of Italy will continue its protectionist and protective attitude towards branch network planning.

David Lane

Employee relations

Serious discontent among staff

STAFF RELATIONS in Italian banks can best be described as *unsettled. Business was* disrupted this autumn as the trade unions turned to strike action in their fight with management over a new contract.

Dissatisfaction with terms and conditions is widespread among the 304,000 who work in Italy's retail banks. Nearly two years have passed since the old contract expired, so perhaps demonstrations of impatience are to be expected.

"There is serious discontent among staff," says Mr Edgardo Iozia, national secretary of the socialist bank workers' union UIB, who has been in the front line of negotiations with management. The differences between the two sides were substantial and he did not expect an early settlement.

The new contract involves a salary review, for Italian bank staff complain strongly that their living standards have been eroded. According to Mr Iozia, the purchasing power of the average monthly salary has fallen by nearly one quarter over the past decade.

The attractions of employment in banking has declined. *Until the* mid-1970s it was widely considered to be prestigious as well as secure and well-paid. But like other Italian white-collar workers, in the general reduction of wage differentials, bank staff have suffered from a relative standstill in their salary figures.

The comfortable heyday when as many as six monthly bonus payments were paid during one year are now in the past. In the mid-1980s, like workers in other sectors, Italian bank clerks receive an extra month's salary in December.

Banks also pay a productivity premium; but Mr Iozia says that this is relatively small, amoun*ting to about L1.3m after 13* years of service.

While UIB's statistics show that bank staff have lost ground on pay, the remuneration package is certainly not the only area of complaint. The trade unions are demanding invovement in defining the organisation of work.

"We must be given a participatory role in deciding how new technology should be introduced and used," says Mr Iozia. "In manufacturing industry the trade unions are accepted and treated as partners. Employers and employees' representatives discuss and decide on a wide range of crucial issues." Mr Iozia points to the sharp contrast offered by the conservative and slow-moving bank managements in drawing up a protocol to govern management/labour relations in its subsidiaries, the state holding corporation IRI excluded the banks it controls.

"Not only are IRI's industrial subsidiaries covered by the protocol but so are subsidiaries in the service sector, such as the broadcasting corporation RAI, the national airline Alitalia and the telephone network," says Mr Iozia.

He attributes the exclusion of IRI's banks (Banca Commerciale Italiana, Credito Italiano and Banco di Roma) to political influence.

There is no doubt that the trade unions want to play some part in the *management* of technical change. Salaries may be a significant point of contention, but coping with change and new technology lies at the heart of staff unrest and the growing agitation on the part of trade *union representatives.*

Banking staff and costs

	1980	1981	1982	1983	1984	1985
Staff numbers (in thousands)	274.9	287.4	293.0	299.9	302.8	304.0
Cost per employee (in Lm)	29.8	32.8	36.1	46.2	50.2	55.2
Staff/operating costs (per cent)	73.1	72.5	69.4	73.3	72.1	71.9

Source: Bank of Italy

Mr Iozia is severly critical of the way in which Italian banks have approached the issue of change and the related problems. "New technology has been brought in without reference to personnel," he says. "The poor performance of the Bancomat cash dispenser system is proof that management's approach has been disastrous".

"Although banks have made enormous investment in new technology, this has not yet given results in terms of productivity, efficiency and service. While the investment has been heavy it has often been misplaced."

The effective utilisation of new equipment in banking is less than one quarter, he believes.

Mr Iozia's view of the situation is somewhat different from that of Mr Vincenzo Monaci, managing director of Sipe Optimation, the systems and information technology subsidiary of the Banca Nazionale del Lavoro, the largest bank in Italy.

Mr Monaci says that the investent in new technology made by Italian banks has been too low. Compared with other countries, he believes, the progress made towards automation has been inadequate.

In 1980-85 the expenditure per employee on information technology in US banks *increased nearly* fourfold. In Italy the increase was only twofold. Whereas per capita expenditure in the US in 1985, was $12,500 in Italy the figure was 7m (about $5,000).

Mr Monaci points out that in US banks automation now accounts for between 11 and 15 per cent of total costs compared with 5-7 per cent 10 years ago. In the same period automation's share of total operating costs in Italian banks has remained at between 1.5 and 3 per cent.

He attributes the substantial investment in technology in other countries and other sectors of the financial world to the need to increase profitability. *Better and more advanced* services to the customer need to be offered at a lower cost and new technology provides the means of doing so.

"At *present* the *impact* of information technology on personnel in Italy is zero. The revolution has yet to arrive here," says Mr Monaci. He expects that there will be a dramatic fall in levels of *employment. Reductions of* about 10 per cent a year in the number of bank jobs could and should be made. Moreover, the staff who remain will have to accept radical changes in working practices.

Such forecasts are clearly a cause of concern to staff representatives. Indeed, Mr Iozia says that the maintenance of existing employment levels is a primary objective of the trade unions in the present round of contract negotiations.

But recognising that the banks need to be competitive and profitable, he says that the trade unions are not opposed to automation.

To soften the hard reality that increased automation invariably leads to fewer jobs, the trade unions suggest that banks should increase their efforts to diversify. Mr Iozia says that developing, selling and operating new services should take up the slack resulting from fewer jobs in traditional areas of banking work.

Bank of Italy statistics show that employment in the banking sector in 1984 exceeded 300,000. During the early 1980s the number of jobs rose steadily, increasing by 11 per cent to 304,000 at the end of 1985.

The figures confirm Mr Monaci's view that in Italy the technological revolution in banking has so far had only a marginal effect.

With staff costs averaging more than 70 per cent of total operating costs it is evident that labour-saving equipment and systems ought to provide opportunities for substantial savings.

In 1985 the overall salary bill of Italian banks amounted to L16,800bn; so the 10 per cent reduction in staff numbers suggested by Mr Monaci could be achieved annually for several years, offering potential cost savings approaching L2,000bn (about £1.4bn) a year.

About 500 jobs were cut from 11,500 in Banco di Roma's branch network before reorganisation and as many as 1,000 jobs could still be eliminated. *The other two IRI banks*, Credito Italiano and Banka Commerciale Italiana, both reduced their staff during 1985.

But as figures for the banking sector show, the overall trend in employment is still upward. The Istituto Bancario San Paulo di Torino added 164 employees during 1985 to reach 11,920 at the end of the year.

Banca Nazionale del Lavoro (BNL) increased its payroll by *97 to 22,390 and in their annual* report the bank's directors emphasised that it was not their intention to reduce the total number.

For the customers of Italian banks, often faced with a quality of service which is far from satisfactory, the emphasis on extended automation and better staff training must be welcome news. If trade unions and management can settle their substantial outstanding differences there is a promise of increased and improved services and a friendlier and more helpful face on the other side of the counter.

David Lane

Accountancy

The 'big nine' firms come to Milan

ITALIAN FINANCIAL reporting with a few obvious exceptions such as Fiat, and Olivetti, has long left a lot to be desired. In the past, companies' annual reports frequently concealed as much as they disclosed because they were prepared primarily for the tax authorities rather than for shareholders.

But the view within the accountancy profession is that those days are over. Accountants claim, with reason, that there has been an enormous improvement in the standard of reporting in the last few years. A number of factors have contributed, including that nebulous ingredient: a "cultural change."

Maurizio Milanesi, senior partner of Arthur Andersen in Milan, tried to explain: "Companies have realised that having a good set of financial statements is an effective way of improving their image. Management understands that the annual accounts are no longer only the accountant's problem, the audience has become more receptive and expects more. And the profession has helped a great deal by working with clients and assisting them in the preparation of their accounts."

The introduction of a mandatory audit requirement five years ago helped the push towards change as it opened the door to the big nine international firms and propelled the two professional accountancy bodies, the Commercialisti and the Ragionieri, into issuing accounting standards and auditing guidelines.

In 1980, fewer than 50 companies had Anglo-Saxon style external audits. The type of audit performed by the domestic accounting profession was a legally required statutory audit. The civil code requires that Sindaci (statutory auditors) are appointed to all public limited liability companies (SPA) and private limited liability companies (SRL) with share capital of more than L200m.

Legislation introduced in 1975, which came into effect from 1981 onwards, made audits obligatory for all quoted companies. Audits are also mandatory for insurance companies, investment trusts, state-owned businesses, shipyards, publishing houses and all other enterprises in receipt of government grants.

The indigenous profession was unable to cope with the new requirements, which meant that the international firms quickly gained a dominant position in the market. The big nine now have about 90 per cent of the audit market and employ more than 2,000 staff. The Italian firms are considerably smaller, most employing fewer than 20 people.

The rapid influx of new work prompted many firms to quote very low fees to get a slice of the action. Appointments were for three-year periods, with the possibility of two additional three-year stints. To many firms, it seemed worth "investing" (i.e. discounting heavily) to get a foothold in the market. Most appointments were tendered for and the clients did not complain as the firms waged their price war.

An uneasy truce has now been declared. While discounting undoubtably still exists, the scale of the problem has been reduced. Two factors have produced this change: realisation that quoting suicidal fees could not go on indefinitely and, more importantly, the intervention of Assirevi, the association of firms which have been authorised to perform legal audits.

Assirevi was leant on by Consob, the Stock Exchange regulatory body, to bring some order into the market. The threat was obvious: if Assirevi could not do so, then Consob would have to intervene.

Consob's obvious concern is that low fees will lead to low quality audits. In June 1985, all Assirevi members, which comprise 24 of the 26 authorised firms, agreed to abide by a scale of maximum and minimum rates. The association has also set out a mix of staff levels. Smaller firms, defined as those with fewer than 50 staff, can quote fees 25 per cent lower on the grounds that they have lower overheads.

A real difficulty faced by Assirevi is that of sanctions. It is a private organisation and has no statutory powers. The range of fees was introduced originally on a voluntary basis in 1980 to no effect. Because they are now obligatory, any firm contravening them can be fined and/or expelled from the association.

One result of the frantic price war is that a number of smaller firms have simply not been able to keep afloat. Three have disappeared in the last 12 months.

Another reason for the improvement in financial reporting has been the shift away from traditional funding through bank lending to equity finance. The Italian Stock Market has taken off in the recent past, although the big boom has now ended.

Market capitalisation of the Milan Stock Exchange, by far the largest of Italy's ten exchanges, stood at US$98bn in December 1985 (1983: US$21bn) and the price index doubled between January and September this year, compared to a 12.5 per cent increase in 1983. There are 176 companies listed on the Milan Exchange and a record 35 companies have come to the market this year.

An important influence for change is Consob, the Stock Exchange regulatory agency established in 1974 to oversee the market and control quoted companies. This brief includes ensuring that the financial statements of all quoted companies are properly audited. Consob has contributed to greater disclosure and improved reporting. For example, it introduced mandatory consolidated accounts for all quoted companies in 1983.

It had a rocky ride in the early 80s, when it was claimed that the government did not have the political will to make it the effective regulatory agent required to control the burgeoning market. There were many criticisms and conflicts, culminating in a parliamentary inquiry in 1984. In the wake of this inquiry, reforms to give Consob much needed teeth were introduced last year. It has been given more powers and has been made an autonomous body that can deal directly with parliament. It also has a much larger (now 150, previously 40) and better qualified staff.

The auditing firms are convinced that the Italian market has still a lot of growth potential. The environment has changed and many small and medium sized companies are seeking voluntary audits. Companies are finding that lenders require audited statements before making advances.

It is estimated that the EEC's fourth directive will bring another 180,000 companies into the audit net. This originally seemed like a bonanza for the auditing firms. However, under the proposed law it will be the statutory auditors (the Sindaci) who will be the beneficiaries.

Not surprisingly, some hard lobbying is going on. The implementing legislation still has a long way to go even though the deadlines have passed and Italy has been condemned by the European Court for late implementation.

Hilary Abbott

Ms Abbott is editor of the International Accounting Bulletin (Lafferty Publications).

Money markets

Public deficit inhibits innovation

ITALIAN MONEY market operators are hoping for a period of calm and consolidation in the coming months after periods of strong turbulence during 1986. The year opened with a new clampdown by the bank of Italy on domestic credit supply and foreign exchange transfers and has ended with the market still trying to adapt to the withholding tax on government bills and certificates introduced in September.

Interest rates, meanwhile, have moved broadly downward with price inflation without showing much alteration in real terms. In European terms, the market remains unusual because the state is such a dominant issuer and extremely cautious about allowing new instruments which could adversely affect the financing of the public sector's borrowing requirement.

The controls of bank lending and on foreign exchange transactions brought in on January 16 to counter the effects of speculation on a lira devaluation restored some order to the monetary aggregates and were lifted as planned at the end of June.

At the beginning of the stabilisation programme, however, the treasury was forced to halt the downward trend in the yield on short term government securities which rose in February to 16.25 per cent from 15.13 per cent at the end of 1985. Nevertheless, as bank lending was brought back under control official rates were moved downwards. By the end of May, the Bank of Italy had made three adjustments to its discount rate from 15 per cent to 12 per cent where it still stands.

After growing at an annual rate of 60 per cent in December 1985, bank lending to the private sector stabilised at an annual rate of 7.7 per cent in the first half of the year. Demand has strengthened again in the second half so that the average growth for the year is expected by the Bank of Italy to be around 10 per cent, compared to the objective of 7 per cent. The new credit demand is partly by the volume of takeovers and equity dealings. The bank's target for credit growth to the private sector in 1987 has been fixed at 7 per cent. The targeted growth rate in the M2 money supply, which focuses on bank deposits was 7-11 per cent for this year and the outcome should be in the 7-9 per cent range. The target growth range for 1987 has been set at 6-9 per cent.

Efforts to curb the public sector borrowing requirement have brought some fruit in 1986. Absorption in taxes of most of the fall in the oil price should produce an extra yield for the treasury of L5,500bn in 1986 which, together with reduced spending on public sector wage indexation and higher social security contributions, should result in a L14,000bn reduction in the borrowing requirement from L60,690bn to L46,314bn (Bank of Italy figures).

Financing of the debt has been something of a switchback ride with government auctions either going very well or rather badly. In the first nine months, nearly 80 per cent of the state sector borrowing requirement, including settlements of past debts, was financed by medium and long term securities, compared to less than 70 per cent in 1985.

The Government's need to finance a huge public sector deficit hinders the development of more competitive money market instruments.

In absolute terms direct central bank financing declined by nearly 80 per cent, while over the same nine month period public debt as a whole expanded from L632,000bn to L761,000bn—equal to 103 per cent of gross domestic product.

The downward trend in interest rates on new government paper was put to the test with the introduction on September 19 of a 6.25 per cent withholding tax on all new issues of government securities. This will rise to 12.5 per cent from October 1987.

The Government justified the introduction of the tax on the grounds of equity which had long been demanded by sections of the Socialist Party and by all of the Communist Party. It was not a move favoured by the Treasury Minister, Mr Giovanni Goria, who repeatedly argued in public that its effect on Government revenues and individual tax positions would be neutral. In other words, the Government would have to pay higher interest rates on its debt to compensate savers for the tax deduction.

Others, however, believe that there will be a net revenue gain and some saving on the financing of Government debt because yields on the floating rate medium term securities already in circulation are being aligned on the after-tax interest rate paid on short term Government bills.

In the first auction after the introduction of the tax, the pre-tax yield on Treasury bills rose, depending on the maturity, by between 20 and 40 basis points compared with the previous auction. Net of tax, yields maintained their downward trend falling by between 30 and 50 basis points to below 10 per cent for the first time since 1975.

The decline continued at the two October auctions but was not significantly maintained in November.

The tax gave an immediate boost to the secondary market when prices on both bonds and Treasury certificates climbed significantly. The latter have since fallen back to pre-tax levels.

Since the second half of 1985, the issue of bank certificates of deposit has slowed down—in the first eight months of this year CDs increased by L4,200bn compared to L5,200bn in the same period of 1985. This was partly explained by a reluctance on the part of banks to issue fixed-rate liabilities when market yields were falling. But the corporate sector also lost interest in buying CDs because their long maturities prevented their use in cash management and their yields were uncompetitive.

In an attempt to revive the market, rule changes were brought in on November 1 which among other things expanded the higher interest (8.5 per cent) paid by the central bank on the obligatory reserve requirement to certificates of between three and six months. Banks were also allowed to offer two different rates for the same maturity, depending on whether the issue exceeded L1bn. The authorities also indicated that they would favour initiatives to encourage secondary market dealings in CDs.

Nevertheless, many market operators remain dissatisfied with the shortage of instruments. Mr Massimo Tosato of Comit, a leading Milan-based merchant bank, argues that the authorities should encourage bankers' acceptances by lowering or removing a currently punitive tax rate.

There also seems to be a case, at least as seen from the private sector, for developing a fully blown commercial paper market which is currently inhibited by Government imposts.

But the conclusion seems to be that as long as the Government has to continue financing a deficit approaching anything like the present size, it will be extremely nervous about allowing competitive money market instruments.

John Wyles

Home Loans

Still an undeveloped market

OBTAINING BRIDGING finance for home purchase in Italy is quite definitely the customers own problem, according to an official of the Banca Commerciale Italiana, the country's second largest.

"There is nothing the bank can do to help," said an assistant manager at a Rome branch. A 12-year relationship with the bank as customer, property ownership in the Italian capital and regular employment there are insufficient guarantees to satisfy the bank.

"First sell your present apartment. Then we can talk about a loan for the new house," said the official at the Banca Commerciale Italiana. When the customer has cleared this hurdle the bank can provide a 10-year home loan for less than L75m, provided that this figure is not more than half the value of the property.

It is estimated that last year about 650,000 property transactions were registered in Italy. Some of them concerned land, factories or offices, but most of them related to residential property. This means that many thousands of Italians had to cope on their own with the problems and intricacies of raising loans and mortgages.

Home buyers seeking mortgages are faced with a narrow choice of lending institutions able and willing to satisfy their need for funds. Despite a financial system which comprises more than 1,000 banks, only 21 institutions are allowed to provide mortgage finance for home purchase in Italy.

This select group includes the public law credit institutions, like Banca Nazionale del Lavoro and Monte dei Paschi di Siena and the biggest savings banks such as the Cassa di Risparmio delle Provincie Lombarde (Cariplo) and the Cassa di Risparmio di Roma.

Credito Fondiario is a specially incorporated joint stock company authorised to grant mortgages.

The three large, state-owned national banks (Banca Commerciale Italiana, Credito Italiano and Banco di Roma) are not allowed to give mortgages to their custmers, though they do have a place in the market through their stakes in Credito Fondiario.

Moreover, in common with all Italian banks, they are permitted to make a limited amount of their overall lending available to home buyers.

Mr Giovanni Cipelli, Cariplo's mortgages manager for central and southern Italy, says that mortgages fall into two categories—"Mutui edilizi" and "mutui fondiari." The former are mortgages which builders may obtain to finance the construction of residential housing projects. Builders usually split such mortgages on completion of construction and the sale of their properties. They are then assigned to the buyer.

"Mutui fondiari," on the other hand, can be authorised for any kind of property and are not restricted to those under construction. Typically, this is the kind of mortgage sought by home-buyers to finance purchases of properties which are not newly-built.

Most of Cariplo's mortgage lending is directed towards "mutui edilizi" rather than "mutui fondiari."

House buyers in Italy have access to a limited amount of state-assisted finance. Legislation enacted in 1978 to stimulate building and to encourage home ownership provided state funding which has since been topped up. Income decides who should benefit from this subsidised finance.

Cariplo's mortgages are repayable over 10 or 15 years. But some institutions offer longer terms. The Cassa di Risparmio di Roma gives its customers the chance to repay their mortgages over 20 years, and according to Mr Lucio Veneziani, deputy general manager, there is a marked preference for the longest possible repayment period.

Half-yearly payments are the general rule in Italy and this usually means that home owners have to face substantial financial outflows at the end of June and December. At current interest rates, a 10-year L50m mortgage (about £25,000) calls for half-yearly payments of L5m (£2,500).

At present the maximum amount of mortgage interest which may be offset against income tax is L4m, though there is speculation—and hope—that this may soon be raised.

Despite high interest rates and the twice-yearly financial shock which mortgage holders have to absorb, Italian banks do not appear to be too troubled by significant levels of default on payments. Mr Cipelli says that default of payment on Cariplo's mortgage lending is running at less than 7 per cent.

At the Cassa di Risparmio di Roma the failure of mortgage holders to meet payments schedules is not a serious problem for the capital's savings bank, according to an official. Where difficulties arise they usually concern the builders and their "mutui edilizi."

Speculation and the slump in the market for holiday homes has adversely affected the building industry in Italy.

Although most institutions giving mortgages require first charge over the property concerned, this restriction is no longer universal. Banco di Roma, unable to grant mortgages but with its home loan ("prestito casa") service already launched, is prepared to accept a second charge rather than stipulating a first.

Mr Antonio Nottola, general manager of the Banco di Roma, claims that the bank is also competitive in respect of time. Approval for loans is obtainable within three weeks of application, about the same period as that needed by the Cassa di Risparmio di Roma and significantly less than Cariplo and the Banca Commerciale Italiana.

Despite interest rates on home loans which are 1.5 per cent higher than those charged by the select group of 21 institutions allowed to give mortgages, Banco di Roma appears to have been successful with "prestito casa."

Mr Nottola said that in the 2½ years since the service was started 22,300 loans had been granted for a total of L624bn. The Banco di Roma therefore appears to be filling a space in the market.

Some officials are prepared to admit, however, that the Italian banking system has failed overall to respond to the needs of home buyers. In particular, the privileged position of the small category of institutions permitted to grant mortgages has caused criticism.

A relaxation of the rules, fewer cumbersome bureaucratic procedures and a widening of the competition would probably be as good for Italian banking as it certainly would be for home buyers.

David Lane

Profile: Nuovo Banco Ambrosiano

A remarkable change of fortune

"WE ARE now far away from the Calvi legacy. The heritage of the old Banco Ambrosiano weighed heavily upon us; it was a terrible weight, which has tired us, fatigued us for four years. We are today well out of that ugly period. It is by now clear that we have a new bank."

Mr Giovanni Bazoli, the chairman of Nuovo Banco Ambrosiano (NBA), the successor bank to the defunct Banco Ambrosiano run by the late Roberto Calvi, stares across the boardroom table, his eyes searching *to see if his point has been* accepted.

Mr Bazoli, a modest banker from the province of Brescia, a devout Roman Catholic, who is quick to stress that the fraud and criminality of Mr Calvi had nothing to do with the traditions of Catholicism, is justifiably proud of the work which he and Mr Pierdomenico Gallo, his *general manager, have put into* remaking the Ambrosiano group.

The effort has not been in vain. Nuovo Banco Ambrosiano today is a successful, functioning, profitable group with more than 300 branches (two-thirds of them owned by NBA's Banca Cattolica subsidiary) and combined total assets of Lira 18,000bn.

This year the group's consolidated accounts are expected to show a Lira 100bn (US $73m) net profit, not bad going for a bank which four years ago faced bankruptcy and a heritage of sinister criminality which brought together the worst elements of the Italian underworld, the P-2 Freemasons' lodge, the highly dubious role of the Vatican bank, which controlled ten overseas dummy companies to which Mr Calvi lent US $1.3bn and more.

Nuovo Banco Ambrosiano has not so much been turned around as it has been reconstructed from scratch. And the proof of this remarkable effort is to be found in the interest on the part of private sector interests such as the Fiat-controlled Gemina company which are keen to acquire the last two remaining state bank equity stakes in NBA, held by Banca Bazionale del Lavoro (BNL) and San Paolo di Torino. A 9 per cent equity stake in NBA could now fetch more than Lira 160bn (US $117m) and the bank has a stockmarket *capitalisation of more than US* $1bn

How was it done? The restructuring began in August 1982, three months after Mr Calvi was found hanging below Blackfriars Bridge in the City of London. A group of seven leading banks rescued Ambrosiano, taking over both assets and liabilities (within Italy) of the *failed* bank and *injecting Lira* 600bn of capital (of which Lira 350bn was in the form of a good will payment). The ownership at the outset was 50 per cent public and 50 per cent private banks.

The bank has a strong branch network in the relatively wealthy regions of northern and central Italy

At the beginning, NBA had lire 1,814 bn of deposits; today, the deposit base has climbed to lire 5,000 bn. For a while, NBA paid over the market rate, generally about 1 to 2 per cent higher than other banks, to attract fresh deposit accounts. That practice has been ended.

In September 1982, an external audit on La Centrale, the financial holding company of the Ambrosiano group, which Mr Calvi had used for some of his more illicit deals, found lire 321 bn of debts. This compounded problems, but by the end of 1983 about $1 bn of interbank deposits owed to foreign correspondent banks had been repaid.

In March 1983, La Centrale sold its majority shareholding in the Toro insurance group to Fiat and realised lire 295 bn, proceeds which were used to cancel much of the Centrale debt burden.

In May 1983, NDA offered warrants to buy shares to 35,000 small investors who had lost their investment when the old Ambrosiano failed. About 94 per cent of the old shareholders subscribed for warrants.

In the first year of operating *as NBA, the bank made a loss of* lire 25 bn. But heavy provisions were made for bad debts, a practice which continued through this year. By September 1983, with deposits returning and new investments in banking automation, NBA opened its first new branch. The opening was accompanied by an aggressive advertising and marketing campaign to win back clients.

In May 1984, La Centrale sold its controlling equity stake in Credito Varesino, a profitable Lombardy bank, for lire 221 bn. With this sale, La Centrale was *back in the black.*

At the end of the second year of operating (June 1984), NBA was still only at break-even, but the bank pushed ahead with the opening of 14 new branches in the autumn of 1984.

Also toward the end of 1984, a group of private sector companies took over Ambrosiano's 40 per cent shareholding in the *troubled Rizzoli-Corriere della* Sera publishing company, thus removing another financial burden which went back to the Calvi era.

NBA then shifted its year-end to December from June and reported a modest lire 1 bn profit for the six months to December 1984, after taking the maximum lire 73 bn depreciation. NBA has consistently depreciated as much as possible to reduce its tax liability.

In the spring of 1985, one of the original NBA shareholders — the IMI state corporate finance agency — sold its 16.67 per cent of the bank to a pool of four private banks from the Veneto region for about lire 130 bn. NBA considered selling the *La Centrale subsidiary to the* Veneto banks as well, but the Bank of Italy blocked the deal because it would have given the Veneto banks control of Banca Cattolica.

In May 1985 NBA raised lire 154bn from the warrant-holders, which meant that something like 75 per cent of the bank was *in private hands. The bank's* capital base was strengthened as well, to lire 731bn

Less happy was the news that among the old shareholders who bought warrants was the Istituto per le Opere di Religione (IOR), the Vatican bank which only a year before had paid US $241 million to creditors of the old Ambrosiano "in recognition of moral involvement" in the failure of the bank.

Giovanni Bazoli, chairman of NBA: pride mixed with fatigue. The bank has not so much been turned round as it has been restructured from scratch.

The IOR's share stake in NBA, less than 1 per cent, has no material impact upon the bank, *but the return of the Vatican* was seen by many Italian bankers as "not in the best taste".

By September last year, NBA went through its most important and last major reorganisation step: it merged with its La Centrale subsidiary and sought a quotation on the Milan Bourse in place of La Centrale. This complex operation also raised L171bn from the public and diluted the holdings of bank shareholders.

NBA gained the stockmarket listing and its capital rose to *more than lire 1,000bn* as a result. In addition to the institutional shareholders, NBA attracted nearly 70,000 small shareholders. Private control of the bank now stands at 81 per cent.

Both BNL and San Paolo are expected to sell their shareholdings in NBA in the near future, with one packet probably going to Crediop, the state medium-term credit agency.

Nuovo Ambrosiano today, with 51 per cent control of the lucrative Banca Cattolica del *Veneto*, is Italy's third biggest private banking group, after Banca Nazionale del Agricoltura and Credito Romagnolo.

Mr Bazoli says that he sees great potential in developing the bank and its financial services subsidiaries, which have a strong branch presence in the wealthy regions of northern and central Italy. He admits, however, that fulfilling this potential will be even more difficult than rebuilding the bank.

The look on the Nuovo Ambrosiano chairman's face is now *one of pride mixed with fatigue.* When reminded that he once said he would quit and return to his native Brescia as soon as the bank was relaunched, Mr Bazoli smiles and spreads his hands, palms open. "Leaving now would be like an actor quitting after getting good reviews," he said.

Alan Friedman

Profile: Giovanni Goria, Treasury Minister

Not an easy life

THIS IS an extremely wearing time of the year for the Italian Minister of the Treasury. Slumped in a chair in his large sumptuous office with its frescoed ceilings and numerous oil paintings, Giovanni Goria was looking most of his 43 years one evening in early December.

Italian law requires the Treasury Minister to be in personal attendance during parliamentary budget making and so, for nearly two months, he has been spending long hours in, first, the Camera, the lower house of the Italian Parliament, and then the senate, trying to steer the government's 1987 budget legislation through its democratic minefield.

Practice is not making quite perfect, but this year's budget journey has a good chance of passing into law closer to the end-year schedule and with fewer amendments compromising the government's strategy than several others during Mr Goria's four-year stint at the Treasury.

No-one knows, least of all the *Minister himself, whether this* will be his last budget. The natural life of Socialist Prime Minister Bettino Craxi's government is supposed to draw to a close next spring, when a Christian Democrat is due to take over. Does Mr Goria, himself a Christian Democrat, expect to remain at the Treasury. The black-bearded, slightly saturnine *face remains impassive:* "It is not my problem to decide. I am here to pursue a policy."

Thankfully, amid the many other obscurities of Italian politics, the budget policy is easy to identify. It has remained unchanged since Mr Goria came into office in early 1983 and tried to address the central problem of the Italian economy, the vertiginous public sector deficit and indebtedness. His account of the struggle is low key and very matter of fact.

"In 1982, spending as a proportion of gross domestic product had risen by 7 percentage points over the year before. Public debt had to be made more manageable and we had to put a break on the automatic spending mechanisms within the budget.

"By 1984, we began to see some results. Maturities on public debt began to lengthen and spending began to slow down. We were then able to draw up a medium-term plan based on three principles.

"The first is that the overall tax burden remains unchanged. Italians pay as much as they can. They could pay less, but we can't expect them to pay more. The second principle is that the annual increase in current spending should be in line with the projected inflation rate. The third, that capital spending should increase in line with nominal GDP."

In spite of being somewhat erratically applied, the medium-term policy has been bearing some fruit over the last couple of years. The public sector borrowing requirement has been falling in real terms. The 1986 target of L110,000bn or 14 per cent of GDP should be obtained fairly exactly and Mr Goria is confident of hitting L100,000bn or 12 per cent of GDP in 1987.

His overall objective is to balance by 1990 the current spending accounts net of interest payments, which now account for around 66 per cent of the deficit. The newspaper cuttings suggest that this happier state was originally targetted for 1988, but Mr Goria says that he has no recollection of that.

In comparison with the attempts to rein in public spending made by the likes of Belgium or the Netherlands, the Italian approach has appeared somewhat relaxed. Mr Goria prefers to speak of delays. "Perhaps some things could have been done more quickly. For example, dismantling the wage indexation system. Other *policies, such as rationalising* the welfare state, are still at the halfway stage."

Political realities in Italy, it seems, do not make it easy to organise a consensus round a policy of public sacrifices. Those that have been made, through higher unemployment for example, have been more often blamed on company managements, with Fiat high in trade union demonology. This suits the government, although, as Mr Goria underlines, companies have been operating in an environment of fairly rigorous interest and exchange rates consciously created by the government.

"The miracle was that we were able to begin restructuring the budget without reducing living standards," he said. "Our big worry was whether we would damage the manufacturing sector when we pressed down with high interest rates, which forced companies to re-capitalise, and with tough exchange rates, which forced them to reorganise."

But what about these welfare state reforms, which are still at the halfway stage. Can the government eliminate its current spending deficit by 1990 without them? It would be "very difficult," said the minister.

With a change of government imminent and general elections no later than the summer of 1988, if not before, Mr Goria is mostly preoccupied by immediate problems. Getting the budget through parliament is one and influencing the outcome of the national pay negotiations covering 13m private and public sector workers is another.

He has given a public warning that pay deals above next year's projected 4 per cent inflation rate would threaten the huge reductions in both inflation and the trade deficit granted by falling oil prices. He thinks that the public sector agreements will be struck at acceptable levels, although professional groups *such as hospital doctors* and veterinarians may win 1-2 per centage points more because of pay differentials eroded over the last 10 years.

Private industrialists such as Mr Carlo de Benedetti are constantly calling for reforms which would do something to raise the efficiency of public administration. After 3½ years of relative political stability—the same prime minister and virtually the same ministers—why has so little been done?

This is not a comfortable question to be asked as a minister in an Italian coalition government. Each party has its constituencies among public employees and politicians, generally, prefer to change the subject. Mr Goria took refuge in obfuscation. "In Italy, critics abound, but there is a shortage of poets," he said. The rest of his reply was difficult to understand, except that he seemed to be saying that the public sector had been given too many tasks.

A protege of Mr Ciriaco de Mita, the leader of the Christian Democrat Party, Mr Goria was, at 39, an extremely young treasury minister when he was appointed. Yet he does not seem to represent a new or younger current in Italian politics. He is reformist, but does not burn to change things; reluctant, as we have seen, to grapple with the public administration and equally conservative on the subject of the parties' controversial practice of sharing-out of jobs in public sector banks. Unlike the 66-year-old governor of the Bank of Italy, he sees no desirable alternative, he says.

John Wyles

The Bancomat System

Image tarnished by problems

THIS HAS been a bad year for Bancomat, Italy's much-vaunted national cash dispenser system. Widely reported cases of cash card fraud and the extensive newspaper coverage given to the problem of out-of-service terminals have tarnished the image of Italy's ambitious electronic banking programme. Press reports paint a disturbing picture of chaos among the country's cash card dispensers.

Figures from the Societá Interbancaria Per L'automazione (SIA), the inter-bank company responsible for developing and managing Bancomat, reveal public disenchantment with the system. There has been a marked slowdown in the growth of the number of Bancomat cards issued.

Last year the number of Bancomat card-holders rose by 19 per cent, compared to 35 per cent during 1984. The increase was 12 per cent in the first nine months of this year.

Moreover, the user's experience of bad service, and the resulting adverse publicity incurred by Bancomat this year, has led to lower utilisation. SIA's statistics suggest that public confidence in the system has been eroded.

There was a record number of 4.41m "circular" operations (cash withdrawals from dispensers installed at banks other than the card-holder's own) for a total value of L939bn during the fourth quarter of 1985.

"Circular" operations have been sharply lower this year. They amounted to 3.29m, for a total value of L785bn, in the July-September quarter.

When a senior executive at SIA admitted that Bancomat had "stagnated" during 1986, he was putting a brave face against a real reversal.

Much has been written about the theft and fraudulent use of Bancomat cards. Yet precise statistics are not available. According to an official at Associazione Bancaria Italiana (ABI), the Italian Banking Association, the problem has now been tackled. Losses have been considerably reduced over the past few months.

"Even before the recent changes to Bancomat, the level of fraud was low compared with the experience of similar systems abroad. At a rate of less than two per 1,000, Bancomat fraud can be considered negligible," he claimed.

Since the third week of November all banks participating in Bancomat have been required to operate their cash dispensers on-line with their computer systems. This permits much better security against fraud than the off-line system with which bancomat was launched.

The November deadline terminated phase one of SIA's project for improving the national cash-dispenser system. Phase two will link the computer systems of individual banks, so that a real-time on-line check can be made on every "circular" cash withdrawal through bancomat.

Although the date for completing phase two has not yet been fixed, the ABI official says that it should be sometime during the first half of next year.

Provided that customers report the loss or theft of bancomat cards, then SIA's two-phased project should be effective in combatting most attempts at fraudulent abuse of the system. However, these improvements will do nothing to resolve the problem of out-of-service cash dispensers.

Perhaps press reports have exaggerated the system's defects, but Bancomat currently suffers from a poor reputation. The cash dispenser machines have earned notoriety for being out-or-service or, when operational, of swallowing customers' cards and failing to deliver cash. The system is viewed as erratic and not user-friendly.

Although Bancomat is a national system, neither SIA nor ABI, the two bodies responsible for it, are able to provide statistics on the overall availability of its 2,240 cash dispensers. It is a question to which the individual banks are also generally unable to reply. This lack of hard figures inevitably arouses suspicion that poor service is being covered up.

CASH DISPENSER OPERATIONS

'Circular' operations are defined as cash withdrawals from dispensers installed at banks other than the cardholder's own bank.

During or at end of	Number of 'circular' dispensers in operation	Number of operations in millions	Value of operations in Lm	Number of cardholders in millions
3rd Quarter, 1984	1,408	1.46	278	2.39
4th Quarter, 1984	1,628	2.60	528	2.87
2nd Quarter, 1985	1,844	3.75	776	3.10
4th Quarter, 1985	2,261	4.41	939	3.43
3rd Quarter, 1986	2,240	3.29	785	3.86

Source: ABI and SIA

All major banks claim that their cash dispensers are operational for 24 hours a day and seven days a week. But effective performance is somewhat less than this. For example, Credito Italiana says that it has a daily shutdown of about one hour for closing central accounts. However, this takes place in the early hours of the morning. The bank claims that other unprogrammed downtime amounts to only a few per cent.

Banco Di Roma is able to provide a figure for the availability of its cash dispensers on working days, but not at weekends. Marco Martini, director of information systems at Banco di Roma, says that his bank is presently achieving 85 per cent availability during the five-day working week. He admits that this is not considered satisfactory, but the bank has taken action to improve the situation.

Mr Martini lists the ways in which cash dispensers can fall from an operational state to being out-of-service. The common reasons are a lack of banknotes, termination of receipt paper roll, paper blockage, and electricity black-out which usually requires a manual reset.

"The system is complex and the cash dispensers lie at th end of a lengthy chain. Equipment is spread geographically and time is needed to reach and repair malfunctions," says Mr Martini.

Indeed, Bancomat was established in order to deal with a fragmented banking system in which no bank has true national coverage. Bancomat provides a country-wide service and links many different credit institutions in an attempt to win economies of scale. However some people have doubts about the level of cost-efficiency which the system has achieved.

"The economic worth of Bancomat still needs to be proved," says Mr Martini. Each cash dispenser machine costs between L35m and L40m, but when depreciated over five years this becomes only a small part of total costs.

"From line to modem, to central computer, to front-end management, the chain is lengthy and costly.

"As well as initial spending on hardware and software, there is also the cost of maintenance," says Mr Martini. He estimates that these costs exceed L20m annually per terminal.

What customers are offered by the system varies from bank to bank. Basically, Bancomat provides a nationwide cash dispenser service. Banco Di Roma's card holders are offered no more than this.

"Customer activated terminals and inquiries are completely separate services," says Mr Martini.

The BN also limits its Bancomat services to cash dispensers, though it does have plans to provide information on account balances and the facility for payment orders at the beginning of next year.

Credito Italiano's customers can already obtain information on account balances and transactions, and will probably be able to make deposits through their bank's Bancomat terminals next year.

Charges levied on customers for the use of Bancomat also vary between banks. Accountholders at Credito Italiano are among the fortunate. They incur no charges whether cash withdrawals are made at the bank's own cash dispensers, or in "circular" operations at the cash dispensers of other banks in the Bancomat system.

In this latter case, Credito Italiano absorbs the interbank commission of L1,500, though this benefit to the customer will probably soon be removed

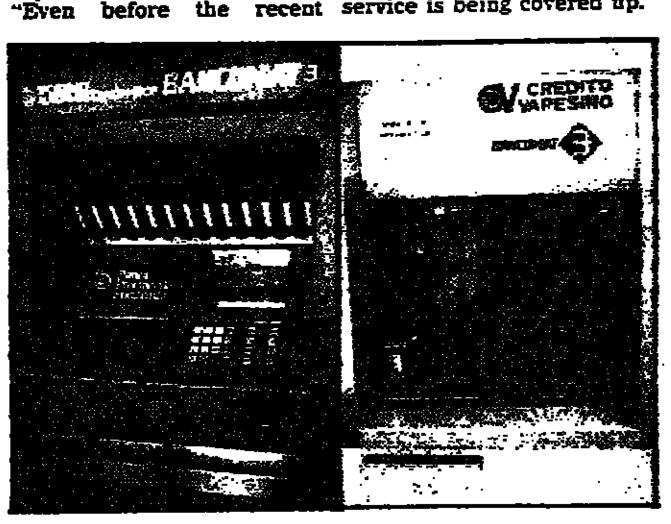
BNL's customers are charged L500 for every "circular" operation. In the matter of charges on "circular" operations, Italians are paying the prices of their fragmented banking system.

On a positive note, there are no longer restrictions on the installation of cash dispensers, so banks may now equip their branches without the constraints of a national programme restricting their commercial decisions. This could introduce a welcome element of competition between institutions. BNL plans to double the number of its installations during 1987. On the other hand, Banco Di Roma expects to move more slowly.

Despite early years which have been fraught with difficulty, Bancomat has succeeded in becoming a fixture in Italian banking.

"While the range of facilities must be increased, and the level of service requires improvement, Bancomat nevertheless responds to a real customer need. Modern payment methods are still not fully accepted in Italy and cash transactions continue to dominate. The call for cash can be partly met by the Bancomat cash dispensers," adds Mr Martini.

David Lane



Typical Bancomat cash terminals.

Profile: Citibank

Retail banking a key priority

THE CONFIDENCE of the US giant Citibank in retail banking as the path to profits and growth is now finding expression in Italy. Since the autumn of 1985, when it acquired 86 per cent of Banca Centro Sud for $130m, the Italian subsidiary of the American giant has begun laying the ground for what it hopes will become a significant presence in the Italian market.

Mr Rafael Buenaventura, Citibank's managing director, defines Centro Sud as a "challenging acquisition" with its 44 branches employing 1,130 people in Southern Italy and deposits of lire 2,500bn. Formerly a 74 per cent owned subsidiary of the Banca di Roma, which itself is controlled by IRI, the state holding company, Centro Sud is being internally reorganised according to Citibank formulae.

When the appropriate systems are in place, the name will be changed not necessarily to Citibank Italy, Mr Buenaventura said "the bank should emerge as one of the more interesting foreign challenges to the Italian banking establishment".

"We are not going to have the branch network of the major Italian banks," Mr Buenaventura said "but Citibank will certainly be looking to expand on its current base."

Before the acquisition, it had full branches in Milan, Rome, Turin and Florence. Turin and Florence will probably be slotted into the Centro Sud network, possibly together with the Bologna and Padua branches, which Citibank has received permission to open. With Citibank assets of lire 1,400bn to set beside those of Centro Sud, the strategic aim is to cover the main cities in Northern Italy.

Apart from marketing the normal range of consumer banking services, Citibank sees potential development from the marketing of securities through its much enlarged branch network. It recognises that it must soon move into the mutual fund business if it is to be really competitive. "We are thinking of starting one or distributing somebody else's. We shall have to make up our minds soon so as to have it up and running by mid next year. If you don't have the service, you are probably going to lose depositors," Mr Buenaventura said.

Citibank employs 330 people in its banking operation and a further 350 in Citifin, its consumer finance and leasing subsidiary, whose assets total lire 1,100bn. Launched in 1973, Citifin started producing a surplus four years ago and is now described as very profitable.

"Our experience has been that Italians do pay their debts and that losses stem more from fraud than bad debts," Mr Buenaventura said. Although it would appear to make sense to market Citifin's services through the retail branch network, such a fusion is disallowed at present under Italian banking regulations.

The third arm to Citibank's Italian operation is investment banking. Already very active in swaps and options, it has yet to make any kind of mark in mergers and acquisitions. "We are new players on the block," Mr Buenaventura admitted.

He sees plenty of potential for investment banking activity in Italy because companies now have little resort to bank debt and a great deal more to securities. "In any case Italy has become very much a borrowers market and we can't make money out of present Italian rates."

As Italian companies become increasingly international in the scope of their activities, Citibank plans to exploit its global presence to offer them financing services at home and abroad.

John Wyles

Profile: Istituto San Paolo di Torino

Expansion by acquisition

San Paolo has grown rapidly in Italy and has become a major player in the ECU bond market under the leadership of the Yale-educated Mr Gianni Zandano, the chairman.

AS THE 61st ranking bank in the world, the Turin-based Istituto San Paolo Di Torino is not exactly a household name. But in Italy, where the public credit *institute has expanded* by means of several acquisitions in recent years, San Paolo has earned a degree of esteem which is rather rare—the bank is highly respected by other banks.

San Paolo, which on a group level now has nearly US$41bn of total assets, 650 branches and a return on assets (ROA) well above the national average (0.78 per cent), is juridically comparable to Britain's Trustee Savings Bank. *Unlike the newly*-floated TSB, San Paolo has no shareholders to speak of. What San Paolo does have, however, is hefty cash reserves, and a desire to expand its activities.

The bank, under the leadership of the soft-spoken and Yale-educated Professor Gianni Zandano, has been growing substantially in recent years. Based in Piedmont, with a strong presence in the most wealthy and industrialised provinces of *northern Italy,* the bank is a money spinner. Its 1985 consolidated group net profit of L439bn (US$316m) was among the highest in Italy.

In 1977, San Paolo acquired the Como-based Banco Lariano, adding Lariano's 120 branches to its own already sizeable network. In 1980 San Paolo took over a Sicilian bank with 40 branches. It has just received permission to incorporate another institution in Sicily, the *Banca Popolare Dell'Agricoltura* in Agrigento. Given central bank restrictions on branch networks, that, in itself, is a measure of San Paolo's respectability.

But it was in 1984 that Professor Zandano took San Paolo down the path of major expansion. First a small Austrian bank was acquired—Bankhaus Bruell und Kallmus. Then, in San Paolo's biggest acquisition to date, some US$270m was paid to acquire 86.7 per cent of the Bergamo-based Banca Provinciale Lombarda. This takeover added another 140 branches in the prosperous region of Lombardy, with key operations in the industrially successful province of Brescia, Cremona, Mantova and Pavia.

The strategy was, and has remained, to expand in key areas in order to provide more funding without having to go to the costly interbank market. Prof Zandano in particular has used his domestic Italian branch base to become an important player in the Euromarket.

San Paolo's other strategy has been to consolidated successes in market niches. Thus, the bank is one of the leading players in the European Currency Unit (Ecu) market and a top underwriter of Ecu bonds and credits.

San Paolo is also Italy's leading bank when it comes to trade finance, with trade-related lending equivalent to nearly 30 per cent of the bank's total advances.

Last October, San Paolo became the first institution to launch a Eurolira bond issue, and although the Eurolira market has had rather a lacklustre development, San Paolo remains committed to the sector.

San Paolo also was the lead-manager of the first zero coupon body denominated in Ecus on behalf of the Republic of Italy. "We like to innovate," said Prof Zandano, adding that last month San Paolo launched the first Ecu-denominated commercial paper issue in the United States, a US $100 million issue through First Boston.

Internationally, in spite of the strong Ecu presence, San Paolo has only a modest presence. It owns the seven-branch First Los Angeles Bank as well as Bruell and Kallmus and has San Paolo branches in London, New York, Paris, Singapore, Los Angeles, Luxembourg, Frankfurt and Amsterdam.

But Prof Zandano in recent weeks has embarked upon a new international strategy designed to increase San Paolo business in European corporate lending and in the capital markets. He agreed with Hambros Bank of the UK that the two institutions should form joint ventures in several areas. To underscore San Paolo's commitment to Hambros, the Turin bank bought a 6.4 per cent shareholding in Hambros. San Paolo also extended a £50 million 15-year subordinated loan to Hambros at a rate of ⅛ above Libor.

In addition, Prof Zandano and a colleague are joining the boards at Hambros PLC and Hambros Bank, while a Hambros executive will join the boards of Banca Provinciale *Lombarda* and *Banco Lariano*.

Prof Zandano says that executives from the two banks have started a pattern of monthly meetings in Italy and the UK. At Hambros in London, a senior executive said the bank was very pleased about the venture with San Paolo.

The Hambros venture is designed to lead to new business, increase San Paolo's placing and distribution power in the Euromarket and to provide training for San Paolo bankers who, later, will take part in the launch of a San Paolo merchant bank in Italy (at present not yet authorised by law).

So what is the overall logic behind these various acquisitions and ventures? Prof Zandano said that he had been engaged in "a strategic rethinking of the bank's *raison d'etre*." What he wants to do is create a group which can offer the same services as foreign banks, while *still growing into an important* force in Italian banking. "Citibank is an example, a model for us—they are a universal bank, and we want to be the same," the San Paolo chairman said.

The only disinvestment which San Paolo appears to have in mind is its 9 per cent shareholding in Nuovo Banco Ambrosiano, where it has been a member of the pool of banks who rescued Ambrosiano in 1982. It is thought likely that this share*holding will soon be sold to Cre*diop, the state medium-term institution.

The only problems which San Paolo might face in the near term in Italy concern its expansion plans. Other public banks are not happy about the way the cash-rich San Paolo has been allowed to grow.

San Paolo wanted very much to acquire the 98-branch Italian subsidiary of the Bank of America (which was sold for US$603 million this month to Deutsche Bank), but the Italian central bank preferred to see the Bank of America unit remain in foreign and private hands.

Prof Zandano might find, therefore, that having one of the best managements and biggest balance sheets in Italian banking is not enough to foster sympathy for further growth. If anything, it might just foster resentment and jealousy.

Alan Friedman

Merchant banking

Mediobanca and Sige in the lead

Mr Francesco Cingano, joint general manager of Banca Commerciale Italiana (BCI) and a board member at *Mediobanca, says the country's leading merchant bank has* broadened its client base recently.

THE GROWTH of the Milan Bourse, the arrival of new unit trusts with US $47bn of funds among them, the launch of numerous new non-bank intermediaries and the desire of more than 100 private companies to seek stock market quotations—these are all elements fuelling the debate in Italian financial circles about the need to nurture home-grown "merchant banks."

For more than three years now Italian bankers and financiers have been talking about the need for merchant banking, but the debate has become increasingly circular. Legislation which would authorise merchant banks has been held up in interministerial committees and the authorities have thus far not allowed commercial banks to operate merchant bank subsidiaries, in part because of traditional concerns over banks taking equity stakes in industrial companies.

While the debate continues, however, a number of new non-bank *or* "para-bank" companies (as they are called in Italy) have already started operating, in fields which mingle leasing, factoring, venture capital, insurance, port*folio management*, unit *trusts,* corporate finance, equity investment and more.

A basic problem in the great merchant banking debate is the simple matter of definition.

*What, for Italians, is a mer*chant bank? The more cosmopolitan bankers and regulators understand perfectly well what a Warburg or Kleinwort Benson is about, and many of these people doubt whether Italy can ever replicate the traditional City of London form of merchant banking.

For many others in Italian finance, the phrase *merchant bank* means investment banking and securities business *a la Merril Lynch, for example.*

Still others wish to follow the French tradition of a *banque d'affaires*. The overwhelming majority of Italians who discuss merchant banking, however, tend to assume that a merchant bank is simply a holding company of *finanziaria* which takes equity participations in various quoted and unquoted companies.

The spin-off potential of an integrated merchant banking *business, with placing power,* international deal-making, underwriting, corporate advice and take-over counselling, is not fully understood in Italy.

In practical terms, Italy has only two bona fide merchant banks (in the Anglo-Saxon sense). These are Mediobanca, the Milan-based institution which remains the pre-eminent lead-manager of new equity and bond issues and the country's most *experienced corporate* deal maker, and Sige, the merchant bank which is rising rapidly to challenge Mediobanca's supremacy.

Several smaller institutions, such as Mr Guido Roberto Vitale's Euromobiliare and Mr Jody Vender's Sopaf have found niches in the market, but these are not by any means comparable with Mediobanca and Sige.

Mediobanca, *meanwhile, has* been weakened by a series of political and corporate squabbles, largely over its shareholding structure, but also over its role in Italian capitalism. For the past generation Mediobanca has been at the top of a pyramidal structure of industrial cross-holdings, keeping under lock and key strategic share stakes in many companies such as Fiat, Montedison and Pirelli.

Professor Romano Prodi, chairman of the *IRI state hol*ding group which owns 57 per cent of Mediobanca, feels that the bank has served the interests as a small private sector elite in Piedmont and Lombardy. Prof Prodi's goal has been to open up Mediobanca to a larger market and to assert the state's power in the face of an agreement which has seen private shareholders with less than two per cent of the shares in *Mediobanca having* had for several decades equal voting power with IRI.

At the centre of the Mediobanca matter is the figure of Mr Enrico Cuccia, the 79-year-old *eminence grise* of Italian corporate finance, an erudite and highly secretive master of corporate fixing and deal-making. Mr Cuccia, who has been investigated by magistrates in the past for alleged improprieties, was almost removed from Mediobanca last year. He has recently tried to challenge new developments in Italian capitalism, such as rise of Montedison as an independent operator which no longer requires Mediobanca's imprimatur for corporate takeovers.

Most Italian bankers believe that Mr Cuccia, who only retains a board seat at Mediobanca thanks to *Lazard Freres*, a minority shareholder which made room for him, is on his way to retirement. His defeat in various clashes with Montedison recently has reinforced the view of Italian bankers that Mediobanca from now on will be a functioning merchant bank which is merely *inter pares* rather than *primus inter partes.*

Sige, which is controlled by the IMI state medium-term corporate finance institute, has been increasing its business steadily, often at the expense of Mediobanca. Sige has brought Benetton, Comau (the Fiat robotics subsidiary), Assitalia (the state insurer) and many other new issues to market this year, and is viewed by senior fund managers in London and New York as a dynamic and resourceful merchant bank.

Sige, too, is undergoing a shake-up, with Mr Gianmario Roveraro, the founder and managing director of the bank, having *just shocked the world of* Italian finance by handing in his resignation. Mr Roveraro's departure is said to be related to a long-simmering clash with Mr Luigi Arcuti, chairman of IMI, who may have felt a need to regain control of his trailblazing subsidiary.

Mr Francesco Cingano, joint general manager at Banca Commerciale Italiana (BCI) and a board member of Mediobanca, reckons that increasing competition between *Mediobanca* and Sige is a good thing. He admits that Mediobanca has traditionally served a small group of private sector companies, those which he describes as "Italy's most historic and grandest industrial concerns."

But he also says that besides Fiat, Pirelli and a few other old clients, *Mediobanca* has recently been working with Olivetti, Zanussi, Snia and other *companies* "where *Mediobanca* had no previous rapport."

While Mediobanca and Sige share out the best new business, a number of London merchant banks are inserting themselves into the corporate finance environment. Hambros, which has historic links with Italy, has teamed up with San Paolo Di Torino to work on joint ventures.

Kleinwort Benson has established a venture with 12 co-operative banks. *Warburg has* done the same with regional banks who form part of the Eptafund group. And Morgan Grenfell, helped by having a genuine Italian insider in the shape of Mr Giorgio Cefis, has been very active behind the scenes in several important stock market deals and takeovers.

What is needed now, in the view of many bankers in Italy, is a clear setting out of the ground-*rules for merchant banking.* Legislation, which has been held up for too long, must be agreed and approved by Parliament, according to bankers.

The outlook, however, is for more debate about what rights a merchant bank might have, what capital ratios it should be permitted, what business it can undertake and who should be authorised to engage in such business.

Alan Friedman

THE ITALIAN ECONOMY

	1980	1981	1982	1983	1984	1985	1986 (est)	1987 (est)
Public sector deficit (lire bn)	37,500	53,595	76,529	91,525	102,471	106,700 (a)	110,000	110,000
Prime rate (annual average %)	19.9	22.1	21.5	19.1	17.7	16.6	14.5	—
GDP growth (%)	3.9	0.2	−0.4	−1.2	2.6	2.4	2.7	3.0
Inflation (annual average %)	21.2	17.8	16.5	14.7	10.8	9.2	6.2	4.0
Money supply growth (%)	12.7	9.9	16.9	13.3	11.8	14.3	9-10	6-9 (b)
Credit to private sector (% growth)	16.3	13.5	13.4	13.1	15.3	9.3	10	7 (b)

(a) Although the 1985 official deficit was at the level stated above, the Bank of Italy disclosed an additional L13,000bn of bridging finance from banks which provided cash in exchange for bonds, bringing the 1985 deficit up to L119,000. On this basis the current year's deficit would be closer to L111,000bn than L110,000bn.
(b) These are Government and central bank targets for 1987.

Source: Bank of Italy.

Yearning for modern markets

Continued from Page 1

Mr Cesare Romiti, Fiat managing director, has expressed a desire to bring the two remaining share stakes in Nuovo Banco Ambrosiano, which are owned by the Banca Nazionale Del Lavoro and by the Istituto San Paolo di Torino. If Gemina obtained control of these share stakes, it would have close to 20 per cent of Ambrosiano and would become the largest single shareholder.

The Bank of Italy has told Gemina this is not permissible, and it now seems that at least one stake, probably the equity owned by San Paolo, will be sold to Crediop, the state corporate finance institute.

But Mr Ciampi has told parliament that he wants legislation to ensure that banks do not fall under the control of industrial groups. The governor also wants to see amendments to Italy Hall Mark 1936 Banking Act, in order to bring the regulatory environment up to date with the numerous new non-banking companies being spawned by the developing financial market.

The 1936 legislation, a sweeping Act, which at the time of Mussolini gave the central bank wide discretionary powers, is seen by Mr Ciampi as sufficiently elastic to cover many of the structural changes now underway in the Italian financial system.

The governor does believe, however, that amendments to the law are required in order to cover the issue of medium-term lending, not allowed for commercial banks. He also wants modifications to the 1936 omnibus legislation to deal with the separation of banks and industry and to address the need to rationalise the large number of savings banks, many of them too small to make economic sense.

Legislation regarding the development of merchant banking in Italy has been held up in parliament and the result is that commercial banks have set up merchant bank subsidiaries, but are not yet allowed to make use of them. A variety of non-banking institutions, meanwhile, is beginning to take equity stakes and behave as investment banks without being formally regulated.

Much work still needs to be done in Italy to improve the country's cheque processing and payments systems. A central bank white paper, the first of its kind, deals with these problems, while also scolding banks which tend to take up to 30 days to process a cheque—the norm in the UK, for example, is three days. Italy's system of more than 1,100 banks and more than 12,000 branches means that the country is overbanked, and many of the banks are overstaffed. Retail services remain less developed than in other European countries, although there are signs that bankers are beginning to address this problem.

While Italy's banks have been enjoying record profitability over the past couple of years, in spite of a gradual draining off of deposit funds to non-bank intermediaries, the average return on assets at most Italian banks is poor. For 1985, the average among the country's top ten banks was a lacklustre 0.27 per cent with plenty of banks reaching a return of just 0.1 per cent.

There are many explanations for this level, but high overheads at state institutions are certainly a key factor. Private banks generally have a much higher return, with the above mentioned Bank America subsidiary having produced a return of 0.9 per cent, or twice the national average.

Another problem which Italian banks need to address is the recording of problem loans. Strict guidelines on the identification of bad debts do not exist in Italy, so each bank has broad discretionary power. Bankers and regulators admit in private that some institutions have consistently understated the size of their bad debts, generally by between 10 and 15 per cent. The national average last year was a 7.13 per cent incidence of bad debts against total loan advances.

Figures for last May 31 showed a record level of 9 per cent of total private sector industrial lending of lire 186,605bn (US$136bn). Of the lire 16,751 bad debts, however, more than 90 per cent were related to small and medium sized companies, generally enterprises with less than lire 100bn turnover.

The reason is simple—while big companies have reduced dependence upon bank loans and gone to the equity market for capital, the smaller and unquoted businesses have remained prisoners of hefty debt servicing charges.

Italy's banks are only just beginning to discuss the bad debt matter in public, and UK-style "casualty wards" do not exist in most banks. More needs to be done, according to accountants, to create a more uniform code for the disclosure of non-performing loans.

Issues such as financial disclosure, the improvement of retail banking services, the necessity to deal with overstaffing and the onslaught of new financial intermediaries are all part of a system very much in a period of transformation. The Italian banking system today is undergoing many of the market-induced structural changes which have been experienced in the US over the last decade.

The change may be late in coming to Italy, but then so was the country's industrial renovation. The financial market is now catching up with industry and, problems notwithstanding, there is every reason to believe that the process, if managed under the supervision of the central bank, should be a positive experience for the Italian economy.

Foreign borrowing

Credit ratings much improved

ITALY is a source of both joy and chagrin to its bankers in the Euromarkets.

Joy because of its improving credit-worthiness. Chagrin because of the ever-lower returns which they can earn on Italian business.

Bankers' attitude to Italy as a borrower—both the country itself and Italian corporate entities—has become drastically more favorable over the past few years.

Economic performance has improved considerably. A declining balance of payments deficit, a sharp fall in inflation and a growing economy have all laid the basis for better borrowing conditions. The chronic worry with Italy must always be the huge state sector borrowing requirement, and the apparently fragile resolve of the Government to tackle it seriously.

Bankers share the concern of the Organisation for Economic Cooperation and Development, which warned this year that Italy should not be diverted by windfall gains—from lower oil prices and a falling dollar—from policies which would reduce the budget deficit.

But they also note cheerfully that the deficit need not be a serious problem for them provided that high domestic savings continue to flow into government-issued paper. They also feel that published economic statistics may not reveal the full extent of the economy's improving health.

The brightening in the economy apart from giving the Republic itself a triple-A rating, has raised the creditworthiness of state-controlled borrowers, and has also been paralleled by big improvements in the financial condition of some of the country's biggest companies, such as Fiat and Montedison.

There are other reasons why Italy's star has risen. Borrowing by Italian entities used to be poorly controlled centrally.

"Italy was its own worst enemy," recalls one banker. This has changed, though partly perhaps for one very obvious reason: borrowers simply need less money, so they come to the market for new funding less frequently.

The result has been an improvement in its standing relative to other European borrowers: in the past, Spanish borrowers might have been able to command better terms than Italian even though their economy was weaker.

Now, they are much more on a par. The differences between the terms commanded by Italy and France might differ by a basis point or two rather than an ⅛ or ¼ point over money market rates.

So bankers have been made hungry for Italian assets by greater credit standing, and positively ravenous by the scarcity of new business. The result, partly due to the increasing desire of borrowers to tap securities markets in line with the worldwide trend, has been the paring of interest margins on Italian debt to levels at which it is scarcely profitable.

Most deals in the Eurocredit market are renegotiations of previously existing financings on finer terms. Interest rate margins over London interbank offered rates have been cut as low as $\frac{1}{16}$ percentage points, or 6.25 basis points, with at least one deal, for Istituto Mobiliare Italiano, dropping to 5 basis points for its first three years.

These are levels at which banks obviously make very small returns. But they go into deals because they want to maintain their relationships and profile in the country, and particularly if there is the prospect of a reward in the form of a dealership for a commercial paper or certificate of deposit programme.

Increasing numbers of Italian borrowers, as elsewhere, have been arranging programmes of this kind.

In the early active days of these renegotiations, Japanese banks accounted for quite a lot of the business. More recently, however, there are signs that they are showing resistance.

Bankers say that Italian borrowers can overdo their zeal to reduce interest spreads, squeezing the long-term standing in the market even if it brings short-term gains. If they did raise more money in the market, they could find it more difficult to get away with overaggressive pricing. Bankers' willingness to go into deals varies, quite naturally, from borrower to borrower, and some deals this year have gone far better than others.

In the bond market too, competition to win mandates from Italian borrowers has generally reduced the profitability of participants virtually to zero.

But amidst all this, an entirely new area has been attracting the attention of Euromarket bankers: the equity market. The Italian stock market has risen dramatically, and foreign buying has played an important part in the gains. As Eurobond houses increasingly look to the equity market as a potentially more lucrative area than the overcrowded bond market, Italy has caught their eye.

It did so most dramatically and most controversially, however, with a $2bn placing of Fiat shares sold by Libya. If the shares had been sold into the domestic market, they would not only have caused a huge outflow of foreign capital which would have depressed the lira, but they could also have had a devastating effect on Fiat's share price and on the whole stock market.

Instead, an attempt was made to distribute them internationally through the biggest Euro-equity placing ever. It turned out to be just too big for the investment banks to handle internationally, particularly as they had had no chance to prepare the ground.

Moreover, Libya opted to sell after a huge rise in the share price during the year. The natural correction which may have been due has been exacerbated by the sale, and the share price now is well below the level at which Deutsche Bank Capital Markets and its fellow syndicate members attempted to sell the shares.

Though the affair spelled important lessons for the investment banks building the Euro-equity market, it is unlikely to dent seriously their interest in the Italian and other strong European stock markets.

A further example of foreign banks' confidence in Italy was provided by Deutsche Bank itself, which has just agreed to pay just over $600m for Banca d'America e d'Italia, a subsidiary of BankAmerica. This will make it the biggest foreign bank in Italy.

Alexander Nicoll

PROFILE: CARIPLO

Italy's biggest savings bank

THE CASSA Di Risparmio Delle Provincie Lombarde is not a bank which attracts an enormous amount of attention to itself. This is somewhat unusual in Italian banking whose largest members appear to devote a large amount of time, effort and money in pursuit of a corporate profile which is both socially responsible and intellectually August.

It is not so much that Cariplo, as it is universally known, does not care about its corporate image. No large business can afford to be casual on the matter these days and certainly the bank takes its publicity seriously.

Rather, it is quietly confident of its leadership role in Italian banking and believes this is best maintained through determined pursuit of traditional Lombard virtues: service to clients and a careful regard for the business ratios.

One can imagine, therefore, how deep runs the embarrassment in the 163-year-old bank at recent lurid publicity which has presented it as a mere pawn in the party political game played in Rome. Publicly-owned like all savings banks, Cariplo was at the centre last month of a five-star embarrassment over the appointment of its new president.

He was one of more than 150 senior banking nominations which the five parties in the governing coalition have been trying to agree among themselves. Names are not just plucked out of the air because, although the presidency of a savings bank is not an executive role, the nominees need a background of professional experience which will ensure a competent performance.

An assurance of professional suitability is guaranteed by the Bank of Italy which produces a choice of candidates for each job. After informal "soundings" the Bank of Italy's list must also seek to satisfy the parties' desire to have their supporters in posts of such importance to local communities. Because it has been the dominant party of government since the war, the Christian Democratic party has held, and continues to hold, a comfortable majority of these banking jobs.

During negotiations lasting many hours on November 19, the Christian Democratic leader, Mr Ciriaco De Mita, raised a public storm by insisting that his close aide, Mr Roberto Mazzotta, be nominated President of Cariplo.

Although the central bank has subsequently confirmed his suitability, Mr. Mazzotta, a former junior minister and Christian Democrat vice secretary, was not on its original list. Mr De Mita's determined evangelism has drawn criticism from other parties and the press for the fact that Mr Mazzotta was a practising politician although the appointment is by no means a precedent in that respect.

Since Mr. Mazzotta is a controversial product of an increasingly controversial jobs-sharing procedure between the parties, his stewardship could attract a more than usual amount of public attention to Cariplo.

Mr Sandro Molinari, the bank's chief executive, is understandably discreet to the point of total silence on the subject of Mr Mazzotta. Having spent virtually his entire career in the bank, he is much more comfortable on the subject of its growth prospects, which he regards as substantial.

On its 1985 results, the magazine Il Mondo ranked Cariplo as the top Italian bank as measured by cash flow (gross profits plus depreciation and securities earnings). Its growth has been solid rather than spectacular, since 1982 assets have risen from L35,000bn to L52,000bn while net profits (somewhat more flexibly defined in Italy than in many other countries) have grown from L32bn to L122bn.

Traditional assets have been much harder to come by in Italian banking over the past three years as corporate clients have recapitalised and personal savers have channeled large proportions of their money into mutual funds.

According to Mr Molinari this has frustrated the banks efforts to step up its corporate lending. Its priority now is to boost its income through developing banking services to both corporate and individual clients.

Its retail banking reach is a long one with 471 branches country-wide. In the last three years, large investments have been put into cash dispensing machines—Cariplo now has 200—and retraining staff who are consequently surplus into financial consultancy roles.

John Wyles